

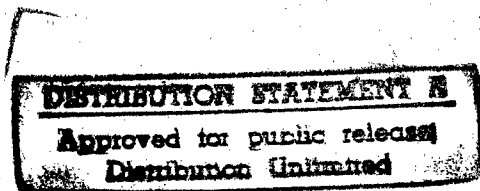
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9 February 1984

# East Europe Report

ECONOMIC AND INDUSTRIAL AFFAIRS



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9 February 1984

# EAST EUROPE REPORT

## ECONOMIC AND INDUSTRIAL AFFAIRS

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## INTERNATIONAL AFFAIRS

### BRIEFS

SOVIET SHIPBUILDING ORDERS--On 3 January at the Adolf Warski Shipyard in Szczecin this year's first flag-raising ceremony took place on board the new vessel m/s "Neftegaz VI." This is the sixth ship in a long series of sea-going tugs designed to provide support services for maritime mining operations. The Soviet shipowner has placed orders for as many as 33 of these craft to be built in Polish shipyards. For several years now this shipyard has specialized in the construction of these types of vessels. The first two of these tugs, which are being used as support craft for oil drilling and exploration rigs operated by the international organization PETROBALTIC, rolled down the slipways of this shipyard, and work will begin shortly on the construction of additional, even more advanced tugs modified to perform even more difficult jobs associated with the search for and exploitation of natural resources to be found in the beds of seas and oceans. Ships designed to perform seabed geophysical survey work are slated to become state-of-the-art achievements in this field. The design work for these ships will originate with this shipyard's planning and design office. [Text] [Warsaw ZYCIE WARSZAWY in Polish 4 Jan 84 p 1]

CSO: 2600/566

CZECHOSLOVAKIA

FEDERAL BUDGET PRESENTED BY LER FOR 1984 APPROVED

Prague RUDE PRAVO in Czech 15 Dec 83 pp 1, 2

[Report by RUDE PRAVO correspondent (zve): "State Budget for 1984 Approved--  
11th Joint Session of the Chambers of the Federal Assembly"]

[Text] Prague, 14 December (By our correspondent)--  
The governmental bill for the law on the state budget of the Czechoslovak Federation for 1984 was the main topic on the agenda of the 11th joint session held on Wednesday by both chambers of the Federal Assembly in Prague. Member of the Presidium of the CPCZ Central Committee and Chairman of the CSSR Federal Assembly Alois Indra welcomed General Secretary of the CPCZ Central Committee and President of the CSSR Gustav Husak, Premier of the CSSR Lubomir Strougal and other members of the Presidium of the CPCZ Central Committee--Vasil Bilak, Peter Colotka, Karel Hoffmann, Milos Jakes, Antonin Kapek, Josef Kempny, Josef Korcak and Jozef Lenart, candidates of the Presidium of the CPCZ Central Committee Jan Fojtik, Josef Haman and Miloslav Hruskovic, secretaries of the CPCZ Central Committee Mikulas Beno, Josef Havlin and Frantisek Pitra, and member of the secretariat of the CPCZ Central Committee Marie Kabrhelova. Deputy premiers and ministers of the federal government, representatives of the executive committees of our political parties and public organizations of the National Front and other public officials participated in the session.

In the introduction the deputies honored the memory of the late chairman of the CPCZ UKRK [Central Control and Auditing Commission] and deputy of the Chamber of People of the Federal Assembly, Miroslav Capka, and Deputy of the Federal Assembly's Chamber of Nations Emilie Kubistova.

The governmental bill on the state budget of the Czechoslovak Federation for 1984 was then introduced by Leopold Ler, federal minister of finances.

The bill on the state budget of the Czechoslovak Federation for 1984 sets total revenues at Kcs 186,818,400,000 and total expenditures at the same amount; thus, the budget is balanced.

Total expenditures include:

	Kcs
--specific grants	
CSR	34,387,141,000
SSR	23,267,140,000
--general grants	
CSR	40,331,359,000
SSR	30,801,760,000
--internal expenditures of the Czechoslovak Federation	58,031,000,000

The introduced bill on the budget was recommended for approval to the chambers by joint reporters of the committees of both chambers, deputies Jan Flidr (SL [Chamber of People]) and Magdalena Vojtekova (SN [Chamber of Nations]).

The former stressed that during deliberations of individual sections the committees had determined that the indicators stipulated by the directives for drafting the state plan of operations for 1984 and proceeding from the tasks of the Seventh 5-Year Plan served as the initial basis for the concept of the budgets. The committees reviewed the method and the extent to which the material and value part of the plan counts on the fulfillment of the overall objectives and goals for the Seventh 5-Year Plan and on intensification of the managing and economic operations. They paid particular attention especially to the approach by individual agencies to upgrading the R & D task and accelerated implementation of its achievements pursuant to the decisions issued by the Eighth Plenum of the CPCZ Central Committee and, furthermore, it reviewed the fulfillment of measures adopted within the framework of the good stewardship program for the period of the Seventh 5-Year Plan.

Central agencies of the production and nonproduction spheres are fully aware of the fact that in 1984 they must count on uncertain opportunities for a further growth of their financial necessities. It is therefore imperative that they proceed from the demand that the regulations contained in the Set of Measures be applied more thoroughly and consistently for the purpose of enforcing and achieving greater efficiency and better stewardship in the administrative sector, particularly in the directions emphasized by the statewide aktiv convoked for the discussion of urgent tasks in further economic development.

Magdalena Vojtekova underscored that the fulfillment of the planned objectives presupposed more consistent adherence to labor discipline and creation of opportunities for the development of appropriate, efficiently-oriented initiative. A relevant role in this process will be played by

compliance with the agreement of our government with labor unions on some joint actions, particularly on joint control, and the way the tasks might be successfully presented to enterprise subdivisions and work teams. An increasingly important place among these tasks is held by the need to achieve prompt and efficient application of all achievements of the R & D revolution. The proposal of the budget promotes this goal not only by means of the allocated resources. With the objectives of the budgetary and financial policies it provides opportunities for concentration of our forces on the fulfillment of the state R & D plan for upgrading the quality of R & D operations as well as for the growth of the production in its marketed outputs. The issue in 1984 will concern to a major extent the fulfillment of the tasks carried over from 1983 and only about 6.5 percent share of new tasks for implementation.

A significant part of R & D involves the task to raise the share of products and technologies from the achievements of applied inventions and discoveries, improvement suggestions and industrial prototypes. In their discussion the committees appreciated the fact that according to projections the exploitation [of the R & D achievements] will achieve in 1984 approximately Kcs 10.5 billion to public benefit.

#### From the Debate to the Budget

Deputy Jaromir Buril (SL), who was the first to speak in the discussion, dealt with the intensification and upgrading of economic and labor discipline which should play an important role in achieving a higher degree of labor productivity. He asked Ladislav Gerle, deputy premier of the CSSR Government, for information concerning the results of the public review of the management with fuels and energy and additional measures planned by the federal government for 1984.

Deputy Florian Kubinsky (SL) discussed the outlays for social security and health care. He mentioned that the account of expenditures for old age pensions was increasing in the most notable way because the average amount of newly granted old-age benefits was raised according to the increasing wages.

Deputy Karel Loeb1 (SL) pointed out the task of the Czechoslovak R & D Association in implementing R & D; this association operates 6,000 institutes in the CSSR and participates, among other things, in the inventors' and improvers' movement.

In his address Deputy Frantisek Stafa (SL) demanded greater personal responsibility for the fulfillment of our economic tasks. This applies also to the employees of our state administration--for example, the citizens of our capital are complaining, and for good reason, about the laxity of the employees of national committees when approving completed construction projects. Prague transport, with the exception of the metro, is another target of their justified complaints.



Deputy Jozef Simuth (SN) discussed transportation as part of an efficient national economic development. He underscored that in the interest of greater security and reliability of our transportation, it is necessary to promote electrification of additional railroads, long-distance cable systems and the development of safety, control and communication technology.

Deputy Alena Kratka (SL) emphasized that total attention to comprehensive use of our agricultural land resources is an important prerequisite for the planned growth of our agricultural production. Thousands of hectares of our agricultural lands are lost every year in our republic. For that reason several decisions were adopted by our highest party and state agencies and furthermore, a law on the protection of agricultural land resources was introduced. The purpose of those measures is to protect our agricultural, primarily arable lands.

Deputy Richard Tichy (SL) noted that in order to fulfill efficiently the objectives of our budget policies for 1984, the closest possible correlation between manufactured goods and the method of their utilization must be achieved. He mentioned that it would be necessary above all to utilize more efficiently resources already available to our economy, namely, our people's qualification and skills.

Deputy Eva Zeleznikov (SN) pointed out consumers' dissatisfaction with certain types of food products, despite the generally positive evaluation of our market stability. She criticized the fact that last year the consumers' increased interest in a number of food products, such as fats, sugar, flour, beer, etc., had not been reflected in a realistic plan for the production and sales for 1983; she emphasized that more convincing methods than those used thus far should be employed to explain the objective causes of short supply of certain goods in the market.

Deputy Miroslav Kordiak (SL) noted that one of the areas which significantly affects the results of production organizations is the quality of their products, which he documented with the example of the Sklounion in Teplice, where losses caused by inferior products had been drastically cut following the introduction of a quality control program. At the same time, the share of goods with high technical and economic standards rose from 3.3 percent in 1979 to 8.3 percent in 1982.

Deputy Gejza Slapka (SN) discussed problems of international political relations. He stressed that we were approaching the fulfillment of our assigned tasks with the knowledge that they would be achieved in conditions of continuous economic competition and our ideological struggle against ruthless forces of exploitation which are trying to defeat the revolutionary progress in the world.

#### Reply to Questions

In his reply to Jaromir Buril's query, Ladislav Gerle stated that as a result of the first stage of the public review of management we were able to reduce our consumption of fuels and energy by 200,000 tons of specific fuel

already in this year's operational plan. An additional 750,000 tons of specific fuel will be conserved by the adopted rationalization programs. The most valuable contribution, however, was the mobilization of our working people for the conservation movement.

He said that in May 1983 the CSSR Government adopted additional measures for the rationalization of fuel and energy consumption, particularly for the enforcement of more efficient national economic planning and management, wage, price and tax incentives to encourage conservation, material and technical safety of the rationalization programs and consistent linkage of investment and other funds with rationalization programs.

The deputies of both chambers then approved the bill on state budget of the Czechoslovak Federation for 1984.

#### From the Further Program

Next, the deputies discussed and approved two government bills--on arms and ammunition, and on unified hospital insurance rates. They also discussed the government bill on the memorandum concerning the change of the agreement between the CSSR and the Hungarian People's Republic on the construction and operation of the Gabčíkovo-Nagymaros waterworks system.

The Minister of the Interior of the CSSR, Vratislav Vajnar, explained the government bill for the law on arms and ammunition. He said that the new bill fully respected the hitherto valid principle (which it specified and itemized) that firearms and ammunition may be owned and borne only on the basis of permits issued by appropriate agencies of the state administration, which also keeps records of persons authorized to own arms. The amendment respects the fact that some arms serve the purposes of hobbyists and are related to certain forms of protection of public order and safeguard the property owned by our socialist society.

It is the fundamental aim and objective of the law on arms and ammunition to specify in detail and improve the preceding amendment so as to obtain records of all arms kept by organizations and individuals, with the exception of armed forces and corps.

In their report deputies Antonín Brabec (SL) and Ema Saríšská (SN), reporters of the chambers' committees, endorsed the government bill under discussion.

Minister of Labor and Social Affairs of the CSSR, Miloš Boda, explained the bill on unified rates of hospital insurance, stating that the bill raised the rates of hospital insurance and assistance for nursing care of family members of all persons employed less than 10 years. Percentage rates on the basis of which the benefits are determined have been standardized. Hospital insurance and benefits for nursing care of family members have been set at 90 percent of net wages, or 70 percent for the first 3 days of work disability. The method of calculation of daily net wages remains the same. The proposed measure would benefit almost 900,000 citizens, i.e., about 12 percent of all of our working people.

The reporters of the chambers' committees, Deputy Marie Freiova (SL) and Deputy Zoltan Sido (SN), endorsed the bill, stressing that this measure meant important assistance in particular to young families.

Deputy Premier of the CSSR Government Rudolf Rohlicek explained the government bill by which the memorandum on the change in the agreement between the CSSR and the Hungarian People's Republic on the construction and operation of the Gabcikovo-Nagymaros waterworks system had been submitted for approval. He underscored the advantage of joint exploitation of the Danube for power generation and for intensification of agricultural production and protection of a part of the South Slovakia territory, water transport and increased production and stability of the underground resources of drinking water. The total installed capacity of the power plants built on river cascades in Gabcikovo and Nagymaros will be almost 880 MW, and the power generated in average years in terms of water economy will amount to about 3.8 billion kWh. In 1981 the Hungarian party reassessed its domestic investments, including the outlays for the waterworks system on the Danube. Discussions which followed resulted in a postponement of the deadline for its completion 4 years beyond the original schedule.

Deputies Jozef Csemi (SN) and Vera Vavrincova (SL), reporters of joint committees of both chambers, emphasized that close cooperation of socialist countries helped defeat the discriminatory measures and embargo imposed by imperialist states. For that reason the bill is of extraordinary international significance and fully agrees with the strategic policy of the socialist countries. Deputies of both chambers expressed their agreement with the government bill.

After a report on the activities of the presidium of the Federal Assembly, the presidium and committees of the Chamber of People and the Chamber of Nations over the past period, the joint session of the chambers of the Federal Assembly was concluded.

After the conclusion of the joint session of the chambers the presidium of the Federal Assembly met under the chairmanship of Alois Indra. It promulgated the law on the state budget of the Czechoslovak Federation for 1984, the law on arms and ammunition, and the law on the unification of hospital insurance rates.

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## JAN-NOV 1983 ECONOMIC RESULTS SUMMARIZED

Prague HOSPODARSKE NOVINY in Czech 23 Dec 83 p 2

[Commentary by Dr Engineer Vaclav Cap, CSc, Federal Statistical Office: "November 1983"]

[Text] On the basis of the results to date, just before the end of the year it is already possible to draw a balance of this year's contributions toward the fulfillment of the economic and social policy set for the 7th Five-Year Plan. Overall the targets of the state plan are being realized successfully. Particularly the rise of real personal incomes and the rise of public consumption indicate that the population's living standard is being maintained and improved in comparison with 1980. At the same time a trade surplus is being achieved in trade with nonsocialist countries, and on the whole the balance of payments in relation to socialist countries has been in equilibrium.

An important task that stemmed from the discussion of the results for the first 6 months by the CPCZ Central Committee Presidium and the federal government has been, among other things, the maintenance of the lead in fulfilling the production volume and adjusted value added also during the second half of the year, and the ensuring of the national product's allocation by the principal directions of its use. The growth rate of industrial production slowed down in November in comparison with the preceding 10 months. At the same number of workdays as in November of last year, the slowdown was influenced by the option last year of bringing forward the 24 and 31 December shifts to a day in November or December. It is estimated that this option accounted for half of a work shift. In comparison with November of last year, the level of industrial production was 1.4 percent higher; and that of adjusted value added, 5 percent higher.

During the first 11 months of this year, in comparison with the same period of last year, the volume of industrial production increased by 3.3 percent; and adjusted value added at industrial enterprises, by 6.1 percent. Average daily production increased by 2.7 percent, or by 2.8 to 2.9 percent if allowance is made for the part of the work shift brought forward. For the first 6 months the lead over the planned annual rate of production was 4.5 billion korunas in absolute volume and 3.6 billion korunas in adjusted value added; for the first 10 months the lead was 9.1 billion korunas in production and 6.3 billion korunas in adjusted value added; and for the first 11 months the lead in production narrowed to 8.8 billion korunas, while the lead in adjusted value added remained at roughly the same level, 6.4 billion korunas. Considering that in

December there will be two workdays fewer than last year, which will mean a reduction of the annual growth rate by 0.6 percentage point, it is obvious that the first-half lead will be maintained.

Miners of the North Bohemian coal mines deserve special praise for their efforts. While the plan for stripping the overburden was fulfilled, 4.2 percent more brown coal and lignite was mined from January through November than in the same period of last year. The attained output of 92.2 million tons represents an overfulfillment of the plan by 3.2 percent. Buildup of the stocks of coal for winter was adequate.

The results in fulfilling the plan of industrial production during the first 11 months reveal also certain shortcomings, especially the unevenness of plan fulfillment. One month before the end of the year, the directors of one-fifth of the centrally managed industrial enterprises and nonproductive organizations are unable to sleep peacefully at night. For there are 198 enterprises (18.2 percent of the total number) that have not fulfilled their plan of adjusted value added; and 175 enterprises have not fulfilled their plan of industrial production, which is 20.5 percent of the total number of enterprises that have this reference indicator in their plan.

Similarly as in the preceding months, fulfillment of deliveries for export to socialist countries remained the most intensive, but overall the deliveries for export to nonsocialists countries also are being fulfilled.

This year industry as a whole is expected to fulfill the state plan in terms of deliveries for export. Deliveries for the domestic market have improved likewise, and here too we can expect that this year's planned tasks will be fulfilled. A differentiated approach is necessary in evaluating the overfulfillment of the planned deliveries of machinery and equipment for capital construction. For this overfulfillment includes not only machinery for the planned expansion and renewal of equipment, but also machinery that originally was intended for export.

Although industry is fulfilling its production and marketing tasks for this year, this does not mean that the existing shortcomings can be overlooked. They must be eliminated more intensively and permanently.

First and foremost at present, the production enterprises must adapt faster to the needs of the foreign markets, and to the domestic economy's requirements that are becoming increasingly stricter. These requirements can be summed up in a few brief keywords: high product quality, technical level that meets at least the world average, timely response to the demand of potential foreign customers and of the domestic market, and perfect service in the case of products that require servicing. These requirements can be met only if the production enterprise does not merely follow the demand and requirements but is able to anticipate them, to offer its own innovative and progressive products, to respond quickly if there is a demand and to supply it as fully as possible. For the time being this cannot be said of an entire series of industrial enterprises that are supplying finished products. Inventory positions, and partially also their increases, reflect this.

Basic Indicators of National Economy's Development in November 1983.  
Increases Over Comparable 1982 Period (in percent)

	<u>Nov</u>	<u>Jan- Nov</u>	<u>State plan</u>
Centrally Administered Industries			
deliveries for:			
- investments, at wholesale prices	.	0.2	-12.0
- domestic trade			
at wholesale prices	.	3.7	0.5
at retail prices	.	2.9	1.9
- export to socialist countries			
at wholesale prices	.	7.7	1.4
at f.o.b. prices	.	9.1	4.0
- export to nonsocialist countries			
at wholesale prices	.	4.7	-3.2
at f.o.b. prices	.	-1.6	-2.2
- other sales for productive consumption			
and operations, at wholesale prices	.	1.6	.
volume of industrial production	1.4	3.3	1.8
average number of employees	0.3	0.5	0.7
labor productivity based on industrial production	1.1	2.7	1.0
Construction			
construction work performed with own personnel	-2.1	2.8	-0.1
average number of employees	0.0	0.1	0.6
labor productivity based on construction work	-2.1	2.9	-0.7
housing units delivered by contracting enterprises	-3.2	-1.2	-6.1
Procurement			
slaughter animals (including poultry)	1.3	3.8	-1.3
milk	6.0	11.2	1.1
eggs	2.9	6.4	2.2
Retail Turnover			
main trade systems	3.2	2.9	2.1
Foreign Trade <sup>1</sup>			
export to socialist countries	9.2	12.1	3.6
export to nonsocialist countries	-6.0	1.7	0.0
import from socialist countries	7.4	12.8	10.0
import from nonsocialist countries	-5.0	-2.9	7.6
Personal Incomes	2.8	3.0	1.5
of which income from wages	2.4	2.9	1.1
Actual Cash Expenditures	3.5	3.1	2.3

Footnote:

1. Data on actual results refer to total transactions. The state plan (in distinction from total transactions) does not include unplanned transactions within the framework of cooperation, unplanned reexport, swaps, tie-in sales, etc.

The volume of work in construction during November was 2.1 percent more than in the same month of last year. Whereas the construction enterprises' efforts to catch up in plan fulfillment reached their peak in November of last year (and at the same time a large proportion of the construction enterprises were bringing December shifts forward into November), this year most of the important construction enterprises have a lead in plan fulfillment. Since the beginning of the year the construction enterprises have fulfilled their output plans 101.3 percent, and their increase in output over January-November of last year is 2.8 percent. Even greater concentration of construction capacities on the key projects and the ones designated for completion remains the basic task of the construction industry.

In agriculture, favorable fulfillment of the procurement of livestock products continued. The targets planned for crop production have not been fulfilled, except for the grain harvest. This requires exceptional care in managing feed and fodder, and strict observation of the planned size of herds and flocks.

The reduction of production costs is proceeding favorably. At centrally managed state economic organizations, the ratio of total cost to output was 89.44 percent during the first 10 months of this year, excluding the effect of foreign trade (the annual state plan calls for 90.19 percent). Within this the material costs without depreciation, and the services of a nonmaterial nature amount to 63.72 percent (64.28 percent according to the annual state plan). Labor productivity has developed favorably, as a result of which the greater wage intensity requires more consistent attention to supplying the domestic market with merchandise that is in demand.

In foreign trade the annual export plan was fulfilled 90.6 percent by the end of November; and the import plan, 83.7 percent. Plan fulfillment was better in merchandise trade with the socialist countries. International economic cooperation is intensifying faster with these countries. Higher prices also contributed to the relatively high increase of trade during the first 11 months of this year over the same period of last year: 12.1 percent in the case of export, and 12.8 percent for import. In trade with nonsocialist countries, export increased by only 1.7 percent, and import declined by 2.9 percent.

Personal incomes increased by 3 percent during the first 11 months; and personal expenditures, by 3.1 percent. The improvement in the domestic market's supply was reflected in increased purchases by the population. The retail turnover of the principal domestic-trade systems was 3.2 percent higher in November, and 2.9 percent higher from the beginning of the year. Personal savings deposits reached 187.4 billion korunas by the end of November, an increase of 13 billion korunas over a year ago. Currency circulation at the end of November reached 51.1 billion korunas, an increase of nearly 3.0 billion korunas in one year.

IMPLICATIONS OF ECONOMIC PLAN FOR 1984 DISCUSSED

East Berlin BERLINER ZEITUNG in German 30 Nov, 1, 5, 8, 12, 15 Dec 83

/Article by Dr Karl-Heinz Arnold, People's Chamber member: "Current Problems of Economic Policy"/

[30 Nov 83 p 3]

/Text/ Intensification--The Common Denominator: New Concepts of Management, Planning and Accounting

Important new developments in management, planning and economic accounting will take effect with the 1984 economic plan--especially with regard to industry. Some were actually effective in the course of this year already. A series of articles in the BERLINER ZEITUNG is designed to provide information about the concerns and basic features of this perfection of our economic system.

When changes occur in our economy, the most obvious questions to arise are bound to be these: Why? What is the heart of the matter?

At the Seventh SED CC Plenum, Erich Honecker observed that these are measures of basic import for further intensification. They are already beginning positively to impact economic life in the GDR.

The new measures serve to fully gear our national economy to intensification--the increasingly better utilization of that which is available to us. The economic strategy elaborated at the Tenth SED Congress for the 1980's and based on the inevitabilities of our social development raised that demand. Basically we are concerned far more advantageously to organize the cost/profit ratio so as to continue to safeguard and improve the people's standard of living.

Resuming Tried and Tested Procedures and Setting Entirely New Accents

Involved here is a series of measure building upon and complementing one another, using some tried and tested procedures but also setting entirely new accents. We may summarize them from seven aspects.



1. The planning and balancing of economic processes will be refined. This is aimed at more intensively utilizing the available funds of energy, raw materials and other materials, managing them more flexibly and, while lowering expenditure, producing a maximum of demand appropriate investment and consumer goods.

2. The measures decided upon by the party and state leadership consist in the appraisal of the performances of combines and enterprises of industry by way of four main indices: Net production (goods production less production consumption); profit; products and services for the public; exports.

Here also it is the intention for the growth of new values (in other words of national income) to be achieved increasingly by lowering costs. Consequently the best result will be recorded by an enterprise that raises its output in terms of both quantity and quality while reducing materials consumption and other cost factors. This will have beneficial results for the premium fund and offer other opportunities for improving the working and living conditions of the labor force.

All of this means that the plan and economic accounting must be more closely linked.

#### More Profit by Science and Technology

3. As Guenter Mittag emphasized at the Eighth Best Berlin Workers' Conference, the regulations are designed to break new ground with regard to the spread and speed of the economic utilization of science and technology.

In particular this means that it will be necessary considerably to improve the work with the tasking workbooks in which the tasks of research and development are set out. The economic target is a larger share of new products in industrial output, especially of products that may be developed quickly, enter rational assembly-line production with the least delay, display a higher use value by comparison to their predecessors and earn higher profits.

Evidently all these measures--whether they involve balancing, the performance appraisal of combines and enterprises or scientific-technological efforts--have a common denominator: The growth of economic performance must be achieved by greater efficiency (improvement of the cost/profit ratio). It is therefore imperative for labor productivity and net output to grow faster than enterprise goods production, in other words total output. By no means all enterprises are now accomplishing this.

4. The perfection of management, planning and economic accounting is now feasible because in the combines of industry we have available strengthened and efficient economic units. It will be necessary to continue reinforcing them. That is why the new regulations even further increase the responsibility of combines and enterprises, including their management by the general and enterprise director. The necessary rise in performance requires especially the enforcement of a new quality economic accounting and control--so highly valued by Lenin--and for operational accounting to penetrate to every foreman's section, every brigade--especially with regard to costs that can be affected at that level.

5. Reinforced generally is democratic centralism, the fundamental principle of the planned socialist economy. It consists in the preparation of the central state plan--based on total societal requirements--with the direct creative collaboration of the working people and in its joint implementation in the competition.

All the new measures are directed to the coincidence of enterprise interests with national necessities. In other words, enterprise performance--fixed with mandatory force in the plan--must be geared to targets determined by the needs of society, of all citizens (just remember consumer goods production), and if these targets are met, enterprise profits. If they are exceeded, profits are even fatter--again both for the enterprise and all of us.

#### Everybody Definitely Affected

6. The new measures definitely affect us, the individual worker and his collective, because the individual helps decide quality and costs, contract loyalty and continuity of output, the success of research and development, shift work and the utilization of equipment, materials and energy use. Not everybody decides all of this, but all of us must assume responsibility for the economic result.

Consequently we do decide the real aim of production--social progress. To put it in another way: The greater the costs, the fewer social targets are achievable; every mark less spent on production consumption, on the other hand, signifies 1 mark more national income for our benefit--of course only if that same mark is not squandered somewhere else.

#### Flexible Adjustments to Changed Circumstances

7. Finally--none of this involves the reform of our economy but rather complex measures for its perfection, so that we may be better able to utilize the economic laws of our social system. We thus strengthen the positions of socialism in the international class war.

Our socialist planned economy is no rigid system. Instead it requires and allows flexible adjustment to reproduction conditions that have changed both internationally and nationally, to the more rapidly advancing scientific-technological revolution, more difficult international market situations. It is our opportunity and political assignment more effectively than the capitalists to operate intensification.

/1 Dec 83 p 37

/Text7 For Our Republic to Be in the Black: New Criteria; Balance Sheets Compel Assortment Fidelity

A main factor in the new measures is the improvement of the overall management of economic processes, ranging from the ministries to the 4,596 enterprises of industry and construction as well as the thousands of other enterprises of our national economy. Firmly in the foreground are the social interests of the GDR, the economic requirements.

They are identified, established and implemented by planning and balancing.

## Considering the Economy as a Whole

Planning has an active role in socialism; it is one of the decisive functions of the state for the management of social development. The economic plan is therefore prepared from total societal aspects and discussed in a comprehensive democratic consultation--the plan discussion.

Based on national needs, combines and enterprises receive mandatory state plan targets; in this context we speak of the directive nature of the plan. The plan turns into a law by resolution of the People's Chamber.

Balancing generally means the confrontation of economic dimensions linked to one another by either yield (for example GDR potash production) or purpose (fertilizer for domestic agriculture and exports).

Balancing is the main method for the preparation of a realistic plan; balances are the supporting scaffolding. That is why the indices shown in the balances are mandatory guidelines for the manufacture of products or their yield and their distribution.

### What Is Included in Balances?

Yield and use are nationally balanced by five groups (balance types): Sources of energy (raw brown coal, briquettes, crude oil, natural gas); raw materials and other materials as well as component products; equipment (machines and vehicles); industrial plant; consumer goods.

Incorporated in this framework are several thousand headings, such as copper, lumber, machine tools, shoes.

The new measures (to be fully effective with the 1984 economic plan) are mainly concerned to guarantee active influence for balancing and also to develop balances into an operational management tool. This serves the goal to make the economy intrinsically more flexible so as to

- Achieve great capacity growth accompanied by declining costs, and
- Raise the supply of market appropriate products for the domestic and export markets.

These are fundamental national interests as well as the interests of every individual citizen. To carry out these measures means to achieve the unity of plan, balance and contract in practical life. Let me give you some explanations.

1. Right from the outset and operationally, balancing is designed to ensure that not just goods of a product group are produced but rather goods appropriate to demand, in other words end products capable of being distributed.

That is why, from 1984 on, the output of nationally important products will be broken down to quarters and months on the basis of the balances. This means that

the respective product headings--for example computer controlled machine tools or men's clothing in the three price groups--are assigned for production with mandatory force to the responsible combines (and, consequently, enterprises). If an enterprise violates such a balance heading by changing the assortment for reasons of enterprise egoism, in other words offends against national interests, the profit earned thereby must be paid over to the state budget.

2. As market conditions may change (and indeed often change very rapidly), the output of demand appropriate goods requires flexibility, and every partner must contribute thereto. After all, an enterprise is usually also--and at the same time--a supplier of components to another VEB and a purchaser of the products of a third enterprise. Often dozens of cooperation partners are involved in one end product.

Let us say quite bluntly that no partner may be obstreperous when flexibility is required. It is a profoundly ideological point, a claim to political understanding, to consider social demands above and beyond enterprise profits and, consequently, cooperate on terms of comradeship. Appropriate legal regulations will encourage such behavior.

#### Shorter Order and Delivery Delays

In this meaning it is also necessary by legislation to stipulate general cuts in order and delivery delays. In future a kind of prior contract on the deliveries and purchases envisaged will have to be concluded at the time of plan drafting. The final contract will then be concluded on the basis of the state norm set by the plan and precisely specified for each quarter.

3. Balancing should also help prevent a fight among enterprises for more funds, (materials, and so on). Instead they should endeavor to manage with the funds available and utilize them to the fullest possible extent.

That is why the enterprises' demands for energy, raw materials, other materials and components must be precisely justified on the basis of progressive norms--a final renunciation of materials orders by rule of thumb and featherbedding. Anything not consumed for plan implementation must be returned to the balance organ--usually the combine--within 14 days. In practice this means a reduction in current orders.

It is imperative by intensification to conserve many such funds (in other words not to call on them) and return them to the state. This is designed gradually to provide a disposable balance reserve enabling the combines for their part to react more flexibly to the changing requirements of the markets.

As for the utilization of equipment, the plan assigns the respective enterprise such indices as orient to the greatest possible utilization of basic assets (especially machinery and plant).

#### Regulations Have No Automatic Effects

It is obvious that none of these regulations operate automatically. Their meaning must be comprehended, and they must be enforced in practice. They are intended to

lead to considerably better economic results--so that the republic's balance sheet may continue in the black. This is the principle: All decisions on balances--what is to be produced and what is to be consumed in the process--must be directed to the fundamental improvement in the cost/profit ratio. All other measures, too, meet at this point, the absolute need for intensification.

/5 Dec 83 p 3

/Text/ Net: The Best Result After Deduction of Costs: Four Indices Show Enterprise Performance

Since April last the performances of combines are appraised by four main indices: Net production; profits, products and services to the public; exports. Of course the planning and settlement of production enterprises is not confined to these four headings. The economic plan has more than 100 indices, ranging from labor productivity to predetermined motor fuel consumption.

Directed to the Accomplishment of Decisive Tasks

These four main indices are in the foreground, because they orient to the accomplishment of nationally decisive tasks: To achieve the necessary growth of performance at lower costs, provide the greatest possible contribution to the national income (newly created values)--in the form of demand appropriate and genuinely marketable products. Precisely this--and nothing else--is appreciated by way of profits.

The internal cohesion of the four main indices, their unity, consists mainly in the fact that they respond to these fundamental demands of economic operation and direct initiatives as indicated by Erich Honecker at the Seventh Plenum.

Net production: This index figure shows the enterprise's own performance. It effectively links the increase in goods production with the reduction of production consumption.

Profits: These most emphatically reflect the cost/result ratio. We will deal with this point in detail in another article.

Products and services for the public: This index figure demonstrates the contribution of combines and enterprises--even those which manufacture means of production--to the domestic market, an abundant supply of consumer goods in demand. Consequently the goal of production--the satisfaction of needs--has turned into the direct criterion of enterprise efforts. A novel item here is the inclusion of important components. From now on they also count and may be settled.

Exports: When we talk of this index figure, we are concerned mainly with high-quality products that obtain for us a correspondingly high profit. Exports and the imports they make possible exert an exceptional influence on our national income. Some 40 percent of all newly created values are affected by exports and imports.

## Links Between Enterprise and National Economy

The four main indices accordingly link the operational achievement of the combine and enterprises (the performance of which is to be appreciated and result in a profit) and the national achievement demonstrated in market appropriate and sold merchandise.

Net production has definite advantages compared with the index figure "industrial goods production" (IWP): It more comprehensively reflects the performance of the enterprise with regard to the increase in goods production than would be possible by the index figure IWP, because "net production" also includes components and other outside performances.

If, for example, the KWO Combine were to produce cables with a high copper content and other expensive ingredients, its good production might be large but the interests of the national economy poorly served. The KWO did not proceed thus but, instead, "trimmed" its cables year by year. The index figure IWP, however, could also be met by using more materials or inflating cooperation with other enterprises, and this resulted in the corresponding extensive use of transportation and other costs.

"Industrial goods production" therefore is no longer the main index figure for the appraisal of enterprise performance. It does remain a necessary dimension of economic planning.

## Useful for the Customer

After all, we are interested in extensive goods production; we need consumer goods, export goods, investment goods for the domestic market. At the same time this goods production must proceed in tandem with the observance of compelling economic necessities: At the lowest possible cost and oriented to marketable merchandise. We do not want simply to create values but concrete use values--in Marx' words things useful to others. We must produce for the customer.

In this context net production is of particular importance, because it is crucial for the entire enterprise down to the foreman's section or the brigade. This concept may be illustrated well by using the words "own performance." Net means remaining after deduction of costs, of taxes--everybody knows the meaning of net wages. The term net production of the enterprise means goods production at enterprise prices less production consumption. That is a simple operational calculation.

The net production of enterprises directly reflects their contribution to the national income. The national income is the new value created in the GDR in the course of 1 year. In other words, the index figure net production links the performance of the individual collective, enterprise and combine with the most important national result--the national income.

## The Foreman's Section Exerts Direct Influence

The collective of a foreman's section or brigade exerts direct influence on this main index figure: The reduction of production consumption in the foreman's section

effects an increase in net production. To achieve this, though, it is necessary to break down to at least the foreman's section all costs capable of being affected--especially for materials and energy consumption as well as for rejects, reworking and warranty services (ANG). This way the competition and economic accounting will be more closely linked.

The link between net production and labor productivity, too, is direct indeed: The less labor time needed for a specific net production, the more productivity rises.

The functioning of economic account depends largely on the correct fixing of enterprises. They are not just to take into account all costs but only socially necessary costs--the highest costs required in average social conditions. In this meaning enterprise prices are to meet costs and ensure normal profits. Accordingly enterprise prices will have a greater effect on the lowering of production consumption and other costs. The respective price measures are to take effect with the 1984 economic plan.

On this basis the value categories costs, price and profit induce the enterprises, indeed compel them in the interest of social progress, to effectively address that which is the basic concern: Consumer goods and services for the public as well as goods and services for export.

Incidentally, the main index figure net production is nothing new. It was introduced in March 1980 and has since proven its worth. It is and continues to be oriented to the growth of output coupled with lower costs.

/8 Dec 83 p 3

/Text Greater Economic Considerations at the Drawing Board and in the Laboratory: Necessities and Reserves; the Right Assignment

The economic performance of an enterprise is affected by many factors. The end result is affected especially and a priori by research, development, design and technology--directed to the improvement of products, new products and their rational manufacture. That is why some regulations were introduced with the aim of encouraging scientific-technological efforts and, in particular, significantly to increase their economic results.

#### The Technical Goal and the Use Calculation

-- Work with the tasking workbooks must be improved--that remains the most important task.

Tasking workbooks are documents displaying those scientific-technological and economic targets that must be achieved to obtain new or improved products, a new piece of equipment or process. In the case of nationally crucial projects (state plan objectives), the tasking workbooks are defended by the combine general director at the Ministry for Science and Technology.

A new provision has been added, so that the targets stated in the tasking workbooks are determined even more emphatically by economic aspects:

-- The total economic calculation. This is to be drawn up for new or further developed products, equipment and processes. It is intended to appraise whether the target of the tasking workbook is adequate. The criteria are the main indices in the combine or enterprise plan. They must be met by the development costs of the new product or process as well as by the revenues to be earned. If the two match, the targets of the tasking workbook are made simultaneously plan and balance effective.

By way of the total economic calculation, therefore, the issue of efficiency, the cost/result ratio, is turned into the crucial starting point of scientific-technological work.

-- The end-of-year settlement by the combine general director with regard to the results of this work is also a new factor. It is, so to speak, a comprehensive counter check: What has been achieved this year below the line by science and technology? This specific end-of-year settlement corresponds to the great importance of scientific-technological performance. It must be defended by the general director of the combine and, if an enterprise has its own research capacity, the enterprise director--in both cases to the superordinated manager,

Let us now recall other regulations, some dating back to earlier years:

-- The tasking workbook must include clear statements on the total expenditure required and the economic effect to be achieved. In other words: The use value of the new product must rise by a considerable and fixed percentage compared with the use value of the former product. This also means that the cost of the product must be significantly reduced by a specified rate. Upper limits for costs and the future industrial price have therefore been instituted (upper cost and price limits).

-- Cutting to a maximum of 2 years the delays to be set in the tasking books for research, development, design and transfer to production.

-- As material incentives for satisfactory results, researchers, developers and designers receive graduated performance bonuses on top of their salaries. These are linked with the accomplishment of specific assignments and should therefore be used strictly to reward performance.

All these measures--required in the interest of our economy and society--represent a great challenge to the persons responsible in the combines and enterprises, to the general director just as much as to researchers, developers, designers, technologists and economists. This has two main reasons:

1. The necessary sharp rise in use value can often be achieved only by entirely new scientific-technological processes. They require special commitment, much creativity, the full concentration of forces, more efficient partnerships with scientific institutions.

2. A possibly even more difficult assignment as regards export products: Before the product gets to the drawing board or the first laboratory tests proceed, it will be necessary fairly definitely to predetermine the revenues it will yield on the foreign market in 2 or 3 years. Putting it in another way: The foreign exchange



exchange earnings likely to be achieved (without introducing wishful thinking) determine the maximum costs of the products and their future industrial prices.

There are no general prescriptions for this--bar one: The faster a high-quality product is developed and transferred to rational mass production, the more accurately can the earnings be precalculated. And those who are first to introduce something new on the world market are also the ones to get the best prices.

It is therefore just as crucial as the best possible use of value of a product to transfer it rapidly to production and manufacture it with modern equipment that immediately results in large output figures or economical lot sizes.

#### The Lead Angle Must Be Correct

We know from experience that there are definite reserves of time in this process of transfer. However, the greatest economic reserves are to be found in task setting, that is in the definition of the targets in the tasking workbooks, based on the overall economic calculation. If the lead angle is incorrect, if weak performances are offered and accepted, the expected profit is lost right from the start. Consequently challenging economic and technical targets must be set, derived from objective international comparisons and the criteria of intensification. That is how we make sure that the enterprise as well as the national account is in balance.

Another, no less important point: Just as vital as the quality of target setting in the tasking workbook and the time saving rational organization of labor in research and development are the motivation of the cadres, the moral appreciation of excellent performances, the working atmosphere, the correct composition of the collective.

The GDR enjoys a significant scientific-technological potential: Roughly 535,000 university and 967,000 technical school graduate cadres, 402,000 of whom work in industry. The expenditure on research and development, including basic research by the academies, and so on, account for 4 percent of our annual national income. That is up to international top values.

These forces and resources must and can accomplish the task that is of crucial importance for our further social progress: Substantially to increase the proportion of such goods in our production as represent top achievements and are manufactured at low cost and, largely, on the basis of domestic raw materials. The Seventh Plenum once again and emphatically pointed out this need.

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/Text/ Costs--Assuming Even Greater Importance: Enterprise Contribution to Social Funds

It is the purpose of the new measures to achieve our national targets at the lowest possible cost and thereby to increase the social effects of the daily labors of millions of working people. In other words, the growth in national income (newly created values) must increasingly derive from the lowering of expenditure. The extent to which this is achieved may be demonstrated in each enterprise simply by looking at costs.

## The Two Major Cost Factors

The term "costs" is understood as the total outlay for products and services calculated in marks, from preparation (research and development) by way of production to realization (sale). This involves two main factors: The first is raw materials, fuels, energy and materials--some 74 percent of costs in industry; the second major cost factor--currently around 26 percent in industry--is wages and salaries, freight costs, depreciation of machines, buildings, and so on.

Since the late 1970's and in the early 1980's, costs have been significantly reduced in our economy. In the first half 1983, for example, the consumption of energy, raw materials and other materials per M100 goods production declined by 8 percent.

To maintain our standard of living and achieve new social advances, we will need to reduce costs even more.

This applies for one to the reduction in materials and energy consumption. The 1984 economic plan has set concrete rates of reduction for all enterprises. It is especially important to improve the mass-performance ratio. This shows how much material is used to achieve the required use values of a given product. Currently this ratio is unfavorable with regard to many products.

## Faultless Everywhere--That Would Produce Grand Effects

Each enterprise is confronted with the necessity more closely to scrutinize and affect all costs. Cost accounting and cost analyses are increasingly important--that was emphasized by Erich Honecker at the Seventh Plenum. To mention only two examples, this applies to freight costs just as to those arising by rejects, reworking and warranty services.

In many enterprises these ANG costs are excessive. This lowers operating profits and also, directly, the goods supply on the domestic market. The "range" of reserves involved is demonstrated by the fact (among others) that last year 13 combines of industry reduced their ANG by more than 20 percent each, while these costs rose by more than 20 percent in 10 other combines.

Extraordinarily favorable economic and social effects would ensue if we were able to organize faultless work all across the national spectrum.

In future the expenditure of live labor will have a far greater role in the cost accounting of industry. A contribution to social funds is being introduced as of 1 January 1984. It amounts to 70 percent of wages and salaries and must be paid monthly to the state budget. This contribution will be part and parcel of costs. As a result live labor is being revalued by the state's spending on the reproduction of the labor force (second wage packet).

This change applies to centrally managed industry from 1 January 1984, to the construction industry from 1 January 1985. It provides a stronger incentive to enterprises to save labor time and manpower by the use of modern equipment and to raise labor productivity.

The social assumption is, first, the fact that we will not have a surplus of manpower in future either; indeed, in various sectors demand will increase (in Berlin alone the employment offices have thousands of vacancies on offer). Secondly this contribution by the enterprises takes into account some of the social costs involved in education, training, further education as well as health, social and cultural care.

Some may object that it does not matter from which pocket of our state social achievements are paid--all that matters is for the money to be earned. In principle that is quite true. But for those who earn the money it should be possible as accurately as it can be to ascertain where costs arise and how they may be lowered.

#### The Moment of Truth for Time Savings

The moment of truth has now arrived with regard to savings of labor time--up to now negligently handled by many enterprises so that these hours did not involve a corresponding rise in labor productivity and a decline in costs. From now on such savings must be clearly demonstrated in the cost indices.

The contribution to social funds is an important change in our economy, identifiable even in the brigade and apt to provide new impetus to the competition for greater labor productivity.

Let us recall some of the findings:

It is the task of the managers to perfect cost planning in the enterprise. This requires costs to be preset with mandatory force, to include them in quarterly and monthly planning as well as to work at the necessary cost reductions on this basis throughout the year. If they are pursued only in the second or third quarter, we will not obtain the needed success.

In many enterprises it will be necessary at last to enforce cost center and cost unit accounting, to break down costs capable of being affected to foreman's sectors or brigades. Only those who are aware of costs can lower them purposefully.

The lion's share of cost reductions must be achieved by scientific-technical and technological efforts. Each saving is useful, and every item should be considered. However, the best effects are yielded by new, better and lighter products and more rational manufacture.

#### Smooth Flow and Quality of Labor Provide Profits

-- The quality of labor at every job and the smooth flow of production in the three 10-day periods of the month also significantly affect the costs and profits of enterprises.

-- A greater role than ever is assumed by the saving of labor time and manpower as well as by their appropriate redeployment--especially for the best possible utilization of machines in consumer goods production and own construction of rationalization aids. The contribution to social funds reinforces the necessity to well organize work, fully utilize labor time and better utilize and constantly modernize equipment.

-- Cost reduction decides enterprise earnings of profits and the additional means available for premiums and social improvements in the enterprise as well as for rationalization.

/15 Dec 83 p 3/

/Text/ And Always It Must Profit Socialism: Three Approaches to Success; Difficult Conditions

Profits are now included among the four main indices for the appraisal of the performance of production enterprises. They reflect the efficiency of the entire reproduction process of the combine or enterprise (efficiency equals cost/profit ratio).

Of course profits in socialism are not the main purpose or goal of production--in contrast to profits in capitalism. The goal of production in socialism is the satisfaction of the people's needs. On the other hand profits offer a reliable dimension for measuring the result obtained by an enterprise with this goal in mind.

Not only do profits provide a criterion of results, they also confer benefits and stimulate ongoing economic progress. Because the mark amounts of enterprise profits are backed by the result of the enterprise's own performance, profits are the decisive source for financing socialist rationalization in the enterprise as well as for its funds.

What Are the Benefits to Enterprise and Combine?

What actually are the benefits to enterprises and combines if the profit plan is fulfilled and exceeded? They share in the excess plan profits on standardized terms by a fixed percentage. This has beneficial effects on the

-- Enterprise premium fund--the better the profit plan is fulfilled, the more money may be allocated to the premium fund, being therefore available for the material recognition of good performances.

-- We also record favorable effects on the performance fund, derived from the excess fulfillment (to be planned beforehand) of net production, that is own performance, and profits; here also allocations rise as a percentage of overfulfillment. At least half of the performance fund is used for rationalization measures that, simultaneously, tend to improve working conditions; the other part may be used directly for the improvement of working and living conditions in the enterprise.

Benefits to the combines arise first of all by larger allocations to the

-- General director's discretionary fund; money from this fund stimulates scientific-technological performances for which (among others) competition agreements were concluded. The discretionary fund tends to turn into a combine premium fund. Larger profits also favorably affect the

-- General director's reserve fund. This serves to financially bridge unforeseeable technical emergencies in the combine or temporarily equalize losses incurred by an enterprise, thereby obviating the need to ask for a bank loan.

## Source of Financing Social Policies

On the level of the republic, profits are also and at the same time that part of the national income that helps secure and improve our standard of living. A very large part of our state budget is financed from the profit tax payments of the state managed economy (that percentage of the profit, that does not remain with the enterprise). To cite an example, VEB profits pay for housing construction and ensure the stability of consumer prices of essential goods, of rents, fares, and so on. Consequently every GDR citizen has an interest in the profitable operation of our economy.

How are profits generated? Essentially three approaches result in success: Profits are earned

-- By the manufacturer of products corresponding to national demand, especially by raising the output of high-quality products;

-- By lowering costs;

-- By the greater efficiency of exports.

1. It is therefore evident that we must produce and sell demand appropriate merchandise. Merchandise left in the warehouse costs money. It does not yield any profit. Profits, therefore, orient to the manufacture of goods in demand on the market.

### Markdowns for Obsolete Products

Since mid-1983 we have had sanctions imposed on enterprises manufacturing obsolete and unprofitable products. In such cases profits are reduced (markdowns); in some circumstances the reduction may amount to half the profit. This is designed to stimulate the rapid renewal of the product assortment.

Furthermore: Extra profits are achievable by research, development, the manufacture and sale of marketable to-notch products. As noted earlier, these excess plan profits fatten certain funds to be used in the interest of the enterprise collectives.

Assortment changes running counter to national demand (as reflected in the plan target) do not result in profits--earnings achieved in this way are impounded by the State Bank.

As for the cost/profit ratio, the following principle applies: Enterprise prices (operating within industry) are or will be so organized as to allow normal profits and exert economic pressure with regard to cost reductions.

### Cost Reductions Yield Most

2. Cost reductions are crucial to the profits of each enterprise. This year centrally managed industry was held thereby to earn about 80 percent of the planned increase in profits. It is therefore imperative to ensure

-- Resolute cost checks.

-- The strict norming of materials and energy consumption in accordance with the latest respective findings.

-- The issue of cost targets to the collectives and a purposeful struggle for lowering costs capable of being affected.

-- The consistent reduction of all non-plannable costs for A NC as well as demurrage and, not least, costs arising from poor performance, such as contract penalty and default interest payments.

3. Special attention must be devoted to the greatest possible utilization of machinery and plant. Well organized shift work is a source of profits.

4. The enterprise earns profits from exports if the foreign exchange earned for its products amounts to more than the national expenditure reflected in industrial prices. The disposable foreign exchange revenues from satisfactory and sold merchandise represent the criterion.

To sum up: Profits--especially excess plan profits--are no longer so easily earned as they once were. Management decisions and the competition must therefore be more resolutely directed to those factors on which profits depend. In any case there must be a profit for socialism, achieved by the strengthening of our economic power which serves the welfare of the people.

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GERMAN DEMOCRATIC REPUBLIC

GDR CAPITAL INVESTMENT GOALS PRESENTED BY STATE PLANNING COMMISSIONER

Moscow EKONOMICHESKOYE SOTRUDNICHESTVO STRAN-CHLENOV SEV in Russian No 11, Nov 83 (signed to press 11 Nov 83) pp 20-23

[Article by Wolfgang Gress, member of the GDR Council of Ministers and state secretary of the State Planning Commission: "Improvement of Management and Planning in the Field of Capital Investments"]

[Text] The economic strategy for the eighties outlined by the 10th SED [Socialist Unity Party of Germany] Congress has defined the new scale of GDR investment policy. Our economic strategy is essentially aimed at making every use of all the factors of intensification so as to constantly improve the cost-benefit ratio. In this process we attribute extremely great importance to the maximum national economic efficiency of capital investments.

In an address to the first secretaries of rayon committees of the SED in February 1983 Comrade Erich Honecker, general secretary of the SED Central Committee, emphasized: "Without investments economic growth is, of course, impossible. But economic success depends not only on their volume, but also on their most efficient use. It is precisely in this sense that we need to strengthen the investment potential of the economy."

Guaranteeing high efficiency of capital investments along with comprehensive use of fixed capital already in place must be expressed above all in a higher growth rate for labor productivity than for the growth of the supply of fixed capital and in achieving a higher growth of production than up to now at lower capital investments and a shorter payoff period for capital. It is indispensable in all spheres of the economy and at all levels of management to fight to bring costs at every project down to the minimally necessary levels, to categorically put an end to all types of squandering of resources and to achieve the maximum possible efficiency of capital investments from the standpoint of the national economy.

Important measures to improve management and planning in the field of capital investments have been implemented in the period since the 10th SED Congress in accordance with this fundamental orientation. The experience of the Soviet Union and other fraternal countries has been thoroughly studied in this connection.

What are the main problems we are referring to?

First of all, we have made the transition to consistent concentration of capital investments allocated on key tasks of the national economy which have decisive importance to carrying out our economic strategy. That is why the bulk of investments are being centrally committed to specific projects. On the basis of the proposals of ministries and district councils concerning construction of new projects, and also taking into account the investments necessary to continue and to complete projects already under construction, the State Planning Commission, after making the relevant calculations of efficiency, annually submits to the Council of Ministers for its examination all investment projects costing more than 5 million marks for inclusion in the national economic plan. Ministers and chairmen of district councils can make decisions independently on capital investments costing less than 5 million marks. At the same time adherence to efficiency criteria set forth centrally is mandatory. This project-by-project centralized planning provides a guarantee that capital investments, as pointed out in the decisions of the 10th SED Congress, will become the prime mover of scientific-technical progress to a growing degree.

A housing construction program is being carried out consistently in the GDR; as is well known, this is the nucleus of the sociopolitical program of our party, and a sizable portion of our accumulation is committed to carrying it out. We are in addition concentrating capital investments first of all on creation of the necessary material prerequisites to make the results of R&D economically effective at a fast pace and on a broad scale. Absolute priority with respect to inclusion in the plan is given to those capital investment projects which strengthen economic might and guarantee a growth of efficiency in the future in accordance with the pace of development of contemporary productive forces.

Attention is accordingly concentrated on the following:

- i. measures to furnish energy and raw materials, in particular through maximum utilization of the GDR's own resources;
- ii. organization of the production of high-quality new and improved products in the shortest time to meet the needs of both the population and the national economy as well as for export;
- iii. broadest application of progressive technologies and methods, above all those which make it possible to increase sharply the efficiency of entire spheres and branches of the economy and at the same time to considerably improve the living and working conditions of the workers.

In making decisions on what is economically the most expedient for the economy and on the efficient use of the planned capital investments, we must take into account that the large potential opened up by science and technology will be correctly applied to socioeconomic development as a whole only if we are able on an ever greater scale to realize them as a result of qualitative transformations of the plant and equipment in place. The point is that the



economic peculiarities of contemporary technical development dictate the need for ever closer linkage of scientific and technical advances with modernization of fixed capital already in place. This is the way in which it is possible to achieve scientific-technical progress.

Second, in the domain of the management and planning of capital investments we are paying particular attention to committing an ever larger share of the resources and capacities at our disposition to socialist rationalization. Up to now the portion of capital investments allocated to those purposes has not yet met the needs of the economy. That is why in coming years the task has been set of bringing that portion up to 70-75 percent in the manufacturing industry. The concentration of capital investments on needs for rationalization must become the determining characteristic of the entire process of the reproduction of fixed capital. The reference is above all to rationalization of interconnected technological processes on the basis of highly efficient and up-to-date technologies and methods which ensure the gradual transition to automation of production sections or shops. There is accordingly a need to plan which machines and installations now in place are to undergo modernization during general overhauls, which are to be reequipped or additionally equipped with up-to-date control equipment and automation devices, as well as how to include them in the system of comprehensive rationalization.

Such changes are to be made first of all in the capacities of combines for creation of equipment for rationalization themselves. It is no accident that Comrade Erich Honecker emphasized at the 5th Plenum of the SED Central Committee: "At this point qualitatively new steps are required. Production of the means of rationalization at combines should develop so as to ensure reconstruction and modernization and even revamping of entire technological processes." That is why we have set the task of developing the production of the means of rationalization at an accelerated pace on the basis of the successes already achieved, so that by 1985 between 23 and 25 percent of the volume of capital investments in machines and equipment in industry will be furnished through our own production of the means of rationalization.

Third, in line with our economic strategy, the allocation of capital investments must be made more strictly dependent than up to now on full employment of existing capacities.

As a result of the purpose expansion and strengthening of our plant and equipment, fixed capital has grown at a fast pace: over just the last 20 years it has grown almost 2.4-fold. If we are able to utilize with maximum efficiency this sizable potential, which is today estimated at more than 370 billion rubles in industry alone, then there is no question that stable and dynamic growth can be achieved even with economical expenditure of capital investments. That is why the decisions of the 10th party congress set the task of multiplying efforts to achieve fuller utilization of machines and equipment, especially by making the transition to more than one shift.

In 1983 the State Planning Commission accordingly devolved to combines and enterprises through ministries mandatory standards governing the operating time of the most important production equipment. These planned standards are

to be decisive criteria at all levels of the economy for evaluation of the economical utilization of fixed capital and for substantiation of the need for capital investments. Before the question is raised of investments, of augmenting the value of the fixed capital in place, a determination has to be made of how fully it is being utilized. The manpower required for this increase should be made available at the enterprise or combine itself thanks to rationalization. Only in exceptional cases, then, cases justified by considerations of the national economy, is it permissible to erect new structures and expand existing ones, which almost always involve creation of new job positions and the need arises for additional manpower. The capital investments allocated will be directed in a concentrated way on rationalization, reconstruction and modernization of existing fixed capital. That is how it is possible to make manpower available for organizing operation on more than one shift with up-to-date and highly productive machines and installations. In 1982 more job positions were eliminated than new ones were required in such important sectors as the electrical equipment industry, electronics, heavy machinebuilding, production of complete sets of equipment, machine tool building, production of equipment for branches of the manufacturing industry, as well as in the industry under district jurisdiction and in the food industry as a result of the capital investments which were made. This is indicative of a successful move in the right direction.

Fourth, we are applying efforts to manage the process of capital investments and to plan it in such a way as to reduce the project completion time to a 2-year allowance adopted by the 10th SED Congress or reduce it still further. The efficiency of capital investments in the national economy depends in large part on this. As scientific-technical progress speeds up, the time factor plays an ever larger role in cost-benefit ratios. The sooner the results of research and technology are applied to the economy, the faster production of the product will be organized in capacities which have been modernized, expanded or newly built, and the larger the benefit will be for society. In addition, reduction of construction time, with the volume of capital investments remaining unchanged, will make it possible to obtain for development of the economy and society as a whole a return from that portion of national income which we commit to modernization and expansion of our plant and equipment. Last, but not least, reduction of construction time also brings about higher productivity of labor and operating efficiency of construction and installation enterprises. All experience indicates that it is preferable to use their capacities in a concentrated way, without scattering them over a large number of projects under construction at the same time.

In order to achieve the required reduction of construction time, we have made the transition to consistent concentration of the capital investments at our disposition on the speediest completion of projects already begun and also on highly effective measures of efficiency experts to guarantee a speeding up of construction. It can be stated that definite success has already been achieved in this respect. For instance, an average completion period of 21.5 months has been achieved at capital investment projects in industry whose construction began in 1982. In 1983 a still more favorable picture is taking shape: the first capacities have gone into operation at more than 70 percent of all the capital investment projects included in the plan.

Fifth, measures have begun to be carried out to ensure consistent fulfillment of the decisions of the party and government in the domain of planning, preparation and realization of capital investments and activation of projects.

In 1979, for example, the Central State Inspectorate for Capital Investments was created. Before construction begins, it is required to conduct thorough expert evaluation of all major economic projects costing more than 20 million marks, and if necessary to issue additional assignments for increasing efficiency, reducing costs and revising the project documentation, as well as to see that those revised assignments are carried out. It is a most important task of the inspectorate, before construction begins, to join other state monitoring agencies and supervise in advance the course of operations at key projects of the economy, monitor the observance of legislative prescriptions and draft proposals on increasing the social benefit of capital investments.

The fact that in 1981 and 1982 it was possible on projects checked by the inspectorate to reduce the cost by 10 percent against the proposals of the customers emphasizes the need and effectiveness of this kind of strict state supervision.

It is also extremely important that capacities put into operation actually meet the planned parameters for the growth of productivity and efficiency. It is not a question of proving high efficiency when the plan for capital investments is being drafted. The important thing is that after completion of the projects they furnish products to the economy in full accord with the plan. That is why we are setting this task: at all projects without exception the economic benefit, substantiated and confirmed by directive decisions, must be the most important planning indicator. Conclusion of new capital investment projects in the plan will in future depend on attainment of the projected benefit to the national economy at the capacities already put into operation.

Sixth, we have undertaken to create the conditions in which planning and cost accounting (khozaschet) will become a still more effective instrument in carrying out economic strategy even in the domain of the reproduction of fixed capital and capital investments. Our point of departure is that management, planning and cost accounting always make up a single whole. This is in line with our Marxist-Leninist theory of the socialist planned economy and democratic centralism.

In order to guarantee that planning and cost accounting pursue the same orientation, the principle that capital investments should in future be made from the resources of combines and enterprises themselves will above all be firmly implemented. Resources from the state budget are intended first of all for key projects to the national economy on which the capital outlays exceed the capabilities of the combines and enterprises. For the planned financing of capital investments they have depreciation and profit earned as a result of their own economic activity. Should the profit plan be underfulfilled, the financing of capital investments continues only when the superior authorities take decisions on raising efficiency. The state bank consistently makes the planned credit financing of capital investments contingent

upon remaining within the volume of investment outlays and construction time, and upon achievement of the economic benefit envisaged. If this is not ensured, then the bank resorts to credit penalties and takes steps for compensation of the losses incurred.

It is also of considerable importance that a procedure has been introduced whereby enterprises which overfulfill the plan for production of the means of rationalization may use a portion of such means for their own needs as additional capital investments.

For purposes of economic stimulation of the utilization of existing fixed capital a decision has been made that an enterprise which has not met the standard for the operating time on principal machines and equipment outlined by the plan shall pay a charge on productive capital as much as 6 percent higher, which shall be exacted out of net profit. At the same time we are striving to set the prices on preparation of project plans in such a way that the collectives of project planners will have greater motivation than up to now in creating project planning features that envisage conservation of funds and resources in the process of both construction and operation of the projects. We consider this very important, since it is in the stage of project planning that the question of the efficiency of capital investments is decided.

Even now we have confirmation that the measures to improve management and planning in the field of capital investments represent an important step toward faster and broader utilization of the results of science and technology. They make it possible to achieve a more favorable ratio between costs and benefits and on the whole to speed up the economic development of the GDR. The main task now is to orient ourselves still more toward the new requirements at all levels of management. After all, increasing the efficiency of capital investments presupposes a scientifically sound style of management, clear-cut and unambiguous decisions, and strict discipline, just as it requires in equal measure a sense of great civic responsibility and a creative approach of all those who participate in the process of managing capital investments.

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ENERGY POLICY, TRENDS FOR THE 1980'S

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[Text] Introduction

The energy policy of the German Democratic Republic is a firm component of the economic strategy which the Tenth Congress of the Socialist Unity Party of Germany adopted in 1981 for the broader prospects of the social and, included in that, the economic development of the GDR for the 1980's. This strategy, under the changed economic conditions, includes the task of making considerably better use of raw materials and fuels, combining the exploration of domestic deposits with their efficient utilization, considerably reducing the specific energy consumption, and securing the dynamic output development of the national economy without any additional increase in raw material, material, and energy consumption. In the economic policy of the Socialist Unity Party of Germany, the basic issues of raw material, material, and energy savings, which significantly influenced the national economic reproduction process, assume an important place. The expression of the offensive position of the GDR's economic strategy aimed at securing a continuous planned growth of the national economy, through which we reacted to the unfavorable changes in foreign trade conditions, as far as the energy sector is concerned, is the characterization and implementation of efficient energy use as the main direction in energy policy. Corresponding measures aimed at perfection and qualification have been launched or are already taking effect in the GDR's management and planning system; these measures are in keeping with the resultant greater requirements in the enterprises, combines, and in the local and central government agencies.

1. On Some Aspects of GDR Energy Policy

Stable economic growth until the end of the 1970's was connected with annual primary energy consumption growth rates of 2-2.5 percent. The changes in tasking at the start of the 1980's, as far as the combines and enterprises of the national economy are concerned, mean that the planned output growth

must be achieved with identical or reduced energy utilization. The basic energy policy line here is in keeping with such objective factors or requirements for the economic reproduction conditions as:

Rising international price level for energy sources;

Rising financial and material-technical expenditures for the maintenance and expansion of the extraction level of domestic energy sources on the basis of the deterioration in geological and hydrological mining conditions;

Promotion and utilization also of energy sources that are lower-grade in energy terms;

Substitution of high-grade energy sources from sectors with predominantly energy utilization (heat generation) by means of energy sources which are available domestically on an in-house basis (raw brown coal) with the goal of making more effective use of them in the national economy;

More intensive utilization of carbon substance available domestically through refining, especially in raw-material industry processes;

Complex utilization of primary raw materials and energy sources in conjunction with a reduction in processing steps, creation of low-waste technologies, and compact raw material cycles;

Increased use of secondary energy resources as the most effective energy source to be obtained within the national economy.

An initial interim review of the past 2-3 years confirms that, while the population was supplied with energy in a stable fashion, the national economy's growth was essentially achieved without any increase in primary energy; in this connection, a large number of energy-intensive combines reduced the energy consumption in absolute terms between 1979 and 1982. The results at the start of the implementation of the rationalization strategy and the energy savings achieved in this process among other things were due to the fact that we proceeded in a more consistent fashion against energy waste and that, first of all, many relatively simple solutions were quickly put to use, so to speak, at the first try, without any major expenditure.

But, in longer-range terms, the GDR national economy is concerned with achieving a higher quality in the economic reproduction process. Here we start with the idea that the limited nature of raw material and energy resources in the socialist planned economy does not stand in the way of the requirements for output growth but instead objectively challenges us to go for a comprehensive intensification of all elements of the reproduction process through science, research, and technology. A quantitative expression of this fact is the change in the rate of decline of the specific consumption of energy, raw materials, and materials, which must be increased from about 3 percent annually during the 1970's to about 6 percent per year during the 1980's.

Accelerated rationalization of the production processes, development and introduction of new energy-saving technologies and of products with a lower specific energy consumption and international top-level standards, consistent reduction of energy loss sources as well as elimination of energy waste and most economical and most rational energy use as the basic principle of socialist management--these represent the national economic effectiveness factors which in the long run guarantee dynamic economic growth with available energy resources. Here it is true that the full utilization of all possibilities in this field requires considerably less expenditures than are otherwise necessary for the expansion of the energy base and for energy imports--and that has been proven by economic calculations for the order of rank and sequence of efficient energy utilization measures in the GDR national economy and it was further documented by practical experiences and discoveries.

This energy-policy strategy is being implemented on the basis of the trend-setting resolutions of the GDR party leadership and government regarding the elimination of any energy waste, the increased utilization of petroleum and substitutes of heating oil and hard coal with raw brown coal, the establishment of a quota system for the consumption of energy sources, and the comprehensive implementation of efficient energy use.

The management and planning of the complex energy-industry processes in the national economy through the central government agencies, via the Council of Ministers of the GDR, the branch ministries, the State Planning Commission, the Ministry of Science and Technology, and the Central Energy Commission attached to the Council of Ministers, as well as via the councils of the bezirks, the national economy's combines and enterprises take place on the basis of the overall national economic targets, legal provisions, and decrees as well as according to uniform methodological principles.

On the basis of long-term concepts for the development of the energy over a period of time of about 15 years, with which the basic direction of the expansion of the GDR's energy base is determined by the government, as well as on the basis of strategies for the implementation of efficient energy use for the particular five-year plan terms, which likewise are specifically spelled out in the resolutions of the party leadership and the government, unity in the materialization of the decisive material-technical facilities of the GDR's energy base is being secured through the guarantee of a dynamic growth rate with the requirements of complex intensification of rational energy use. The erection of huge, capital-intensive facilities for the further strengthening of the national economy's energy base, such as, among other things,

The opening of 21 new large-scale strip mines during the period of 1980-1990,

The construction of big power plants in close production cooperation with the USSR, such as Boxberg and Jaenschwalde with 500-Mw blocks on the basis of raw brown coal and the "Bruno Leuschner" nuclear power plant with 440-Mw PWRs,

The expansion of coal refining and coal chemistry for the more effective technological and raw-material-industry utilization of domestic brown coal deposits,

The buildup of cracking plants in the petroleum industry to increase the yield of light petroleum products and for the increased utilization of petroleum substance in terms of raw material,

And accelerated electrification and traction conversion in the railroads.

These are examples of the GDR's long-term energy policy. With the economic potential contained in 157 centrally-managed and 66 bezirk-managed combines, a highly developed agriculture, about 4.7 million skilled workers and foremen, as well as 1.45 million employees who are college and technical school graduates, the GDR has the necessary material and intellectual capacities in order effectively to accomplish the tasks of the future. A by no means minor potential is concentrated on the solution of energy industry problems.

## 2. Main Directions of Efficient Energy Use, 1981-1985

Presently, only about 34 percent of the primary energy used in the national economy are being employed as useful energy or for raw-material industry purposes. Losses during energy conversion and during energy use are around 61 percent. The future energy need of the economy, in the community sector and among the population, therefore to a considerable extent can be met through the elimination of technically avoidable losses and the switch to modern methods and technologies that make optimum use of energy, with less process steps in the main processes of energy conversion and transmission and in all relevant sectors of energy employment, especially through the development and introduction into production of new products with a lower specific energy consumption. In terms of results, this is connected with a reduction of the necessary primary energy increase on the scale of the national economy. In this way, the tendency toward declining energy intensity in the reproduction process, which so far has been strongly pronounced for the GDR, will, over the next several years, continue to be a particularly clear characteristic of energy intensification.

Examples here are the results of scientific-technical work and energy rationalization by big combines in industry with energy-intensive production, for example, the Leuna Combine, the Schwedt Petrochemistry Combine, among others, which in 1980 and 1981 achieved rising output figures with an energy consumption that declined in absolute terms. Many big combines have strategic rationalization concepts which, until 1985, call for the complex intensification of enterprise energy management and which take into account complex solutions of waste heat utilization in combination with territorial heat supply tasks for cities and communities. For example, the Brandenburg Steel and Rolling Mill and the Riesa Pipe Combine have made not only comprehensive process-analysis tasks aimed at the improvement of the main standards for energy utilization in the enterprise itself the subjects of planning and management but, in conjunction with the operation of waste heat boilers during steel production and their combined grid operation with territorial boiler plants, the most effective way, within the national economy, to meet the heat requirement of apartments, social installations, and the heating needs in the enterprise, represents a territorial rationalization measure in which industry is participating in cooperation with the territorial management bodies. During



the planned implementation of the basic energy policy line, especially the measures that were adopted to eliminate energy waste, considerable results have already been achieved through the activity of the energy commissions in the GDR's territorial structural units, that is to say, in the bezirks and the kreises.

In the community sector, for example--for services, education, trade, and supply, as well as the locally managed economy--it has been possible, through specifically goal-oriented rationalization and saving measures in 1980 and 1981, for the first time to achieve a decline in energy consumption without impairing the supply to the population. While we had growth rates of 3-4 percent per year before that.

The decisive government document on the implementation of the strategy of rational energy use during the period until 1985 is the "Directive and Plan of Measures on the Comprehensive Implementation of Rational Use during the 1981-1985 Five-Year Plan" which was adopted by the Political Bureau of the Central Committee of the Socialist Unity Party of Germany and by the government in September 1980. It was determined that, in 1985 as against 1980, more than twice the amount of energy, as compared to the period of 1976-1980, would be saved through rationalization.

Converted, this energy quantity--which is to be saved through a reduction in the specific consumption during the production of semifinished and finished products, during transportation and during the implementation of housing construction and industrial construction programs as well as through organizational measures--corresponds to an equivalent of 70 million tons of raw brown coal in 1985, related to 1980.

About 80 percent of the savings are to be achieved as a result of scientific-technical measures. They require top-level achievements in research and development, as well as during the designing and construction of products, systems, methods, and building structures, the utilization of scientific-technical top-level standards in energy consumption within the mass-output ratio of the products and equipment and in other decisive quality standards. The following main points are involved in the more intensive utilization of energy resources as a main source for guaranteeing economic growth during the several years:

Savings Potentials of the Most Important Energy Rationalization Complexes,  
in Percent, out of the Total Targets for 1985, Related to 1980

Energy-related improvement of industrial heating processes, especially during the use of industrial furnaces	36 %
Increase in efficiencies in processes of energy conversion and transmission, especially in the big power plants	33 %
Increase in effectiveness of space heating processes	8.5%
Rationalization of transportation processes in the national economy	11 %
Energy-related improvement in electrical motors, lighting, and electrical household appliances	11.5%

Within these process groups, the utilization of secondary energy--especially within the first three complexes--accounts for a share of 14 percent. Overall, secondary energy, in the form of waste heat, waste gases, and flue gases, solid material heat, and byproduct fuels in the GDR represents a potential which is significant for the national economy and in energy terms with about 60 million tons of raw brown coal equivalent (figures in terms of primary energy); this potential is presently being utilized only to the extent of 50 percent. Its utilization as cheap and at the same time safe energy source represents a priority concern within energy policy in the context of energy-related rationalization of the branches and sectors and is covered by central requirements through separate plan parts, including the determination of the production of the necessary equipment.

The above-mentioned directive on the comprehensive implementation of rational energy use spells out the specific tasks for all sectors of the national economy in order to secure the attainment of the high goals of rational energy use through the supply of the corresponding equipment, in material-technical terms. The decisions on the development and the increased use, among other things, of heat insulation materials on a mineral raw material base in the construction industry, of modern burners and fireproof materials for industrial furnaces, of regenerators and recuperators in the high-temperature range or of waste heat boilers take into account a high level of national economic and, at the user end, also enterprise energy economizing with a short return time on the funds expended. An essential viewpoint in working out the energy requirements and meeting them according to consumer sectors and according to combines in industry is the agreement between the required target figures for energy rationalization and the possible level of energy consumption and its structure, broken down by energy sources.

## 2.1. Technological Heat and Drying Processes

About 40 percent of the GDR's utility energy are being employed in this sector. The level of avoidable energy losses during the operation of about 21,000 industrial furnaces alone in the sectors of metallurgy and the chemical

industry, the metalworking industry, the construction materials industry, the glass and ceramics industry, among other things, corresponds to an equivalent of 28 million tons of raw brown coal. Because this process group is essentially characterized by the use of high-grade energy sources, such as heating oil, gas, coke, brown coal briquets, and electrical energy, it is possible, through improved enterprise organization measures and through more intensive heat utilization by means of the employment of the corresponding systems as well as the use of modern burners, furnaces, and fireproof materials, to achieve considerable economic effects and to bring about a noticeable relief of the energy balance sheet. Intensive work is being done to solve important problems,

Of the development and introduction of reoperative and regenerative waste heat recycling plants for the maximum utilization of the energy in waste gas heat with fuel savings of up to 40 percent;

Of the development and production of burner and furnace systems with a high standard, including microcomputer controls and safety engineering features for the optimum conversion of fuel energy and specifically targeted heat transmission;

Of the supply of highly effective fireproof construction materials and heat insulation materials;

Of the creation or introduction of new technologies for the heat treatment of metals in a controlled atmosphere, such as short-time nitration, gas carbonitriding, at low temperatures, etc.

Considerable efforts have been made over the past 2 years to produce and make comprehensive use, for example, of recuperators and regenerators, waste heat boilers, heat pumps, and heat pipes in industry and a corresponding production base has also been created in the GDR.

## 2.2. Energy Conversion and Transmission

The energy saving goals adopted in this sector start with the fact that losses of 35 percent appear on the average at this time during the use of primary energy sources in conversion plants in the GDR; these losses can be reduced by means of specifically goal-oriented technological measures and thus influence the level of the utility energy supplied.

Rationalization measures are concentrated on raising the efficiency of energy conversion, especially in big power plants, the optimization of power plant utilization in the context of the electric energy grid system, the further expansion of heat-energy combination in district heat grid systems, as well as the improvement of internal enterprise heat grid management in major industrial concentration centers, the reduction in energy transport and transmission losses, the optimization of technological processes to improve the specific yield coefficients through the use of microelectronic process control and analysis in energy and raw material refining plants, the more complex utilization of raw material employment in coal and petroleum refining processes, etc.

Likewise important to the improvement of the energy balance sheet are solutions developed as scientific-technical top-level achievements, ready for use, in order to employ the mixture of dust [powder], saturated vapor, and air (so-called vapors) obtained during coal drying in briquet factories for the heating of hot-house surfaces and for the purpose of supplying heat to apartments. Compared to conventional heating systems, with boiler plants for hot-water production, the specific investment expenditure is only one-half.

### 2.3. Space Heating Processes

The space heating sector represents an area that is important to the national economy and in which considerable energy savings effects can be achieved. With a share of about 36 percent out of the utility energy for the heating of homes, community, industry, and agricultural structures, we face the task of decisively reducing the specific energy consumption for heating buildings that are to be newly erected or that are to be modernized, specifically, by 40 percent by 1985. In this way we are to save a primary energy equivalent of 5.5 million tons of raw brown coal. International comparisons on heat consumption in centrally heated homes [apartments] show that there are still considerable reserves in this field for energy rationalization tasks. This is confirmed by the results achieved in 1981 and 1982 with cuts in the specific heat requirements by 12-16 Gigajoule per housing unit and per year due to the introduction of project solutions in housing construction and in the plate [panel] factories of the GDR which were improved in terms of economical energy management. National economic calculations on energy-saving construction activities show that more than two-thirds of the possible savings of thermal energy can be achieved above all through improved thermal quality of the outer walls and roofs of buildings. The thermal improvement of building structure envelopes, especially through the use of heat insulation materials on a domestic raw material base and windows that are improved in terms of thermal engineering, as well as measures aimed at increased quality assurance in industry-scale production and assembly of plates [panels] for housing construction are other decisive steps to reduce the energy expenditure. The prerequisites exist for achieving energy savings of 10-15 percent in the field of technical building equipment through the use of improved house connection stations, the introduction of zone and thermostat regulation, as well as timers for automatic load reduction during night-time hours and other measures. The dominant role of the space heating sector in the GDR's energy balance sheet and its complex energy-related character make it a main field toward which efforts to save energy and to achieve rational energy use are aimed in long-range terms because the energy savings effects that can be achieved in housing, community, and industrial construction have a great long-term effect.

### 2.4. Transportation Processes

In the area of transportation processes--for which about 15 percent of the GDR's utility energy are being expended--the main points aimed at further rationalization and savings of energy consist of a general reduction in the transportation expenditure and the optimization of transportation and delivery relationships in all sectors of the national economy. Specifically, the necessary measures are being carried out throughout the national economy to save energy:

By further increasing the share of electric traction in railroad transportation,

Through the shift of shipments from highway transportation, which is unfavorable in terms of energy savings, to rail shipment and inland navigation,

In motor transportation and passenger transportation through a reduction of the transportation expenditure and the optimum utilization of transportation capacities,

Through the formation of plant transportation groupings and a decisive reduction in deadhead runs,

Through the development of diagnostic services for the adjustment of carburetors, and ignition time adjustment in motor vehicles,

Through the continued operation and improvement of electrically-powered transportation systems in the cities and

The development and introduction of fuel-saving engine systems for passenger cars.

The energy savings that can be achieved in this sector until 1985 involve energy sources that are produced in the national economy with a high specific expenditure, especially fuels which must be supplied on the basis of imported petroleum. This is why the government's resolutions on reducing the transportation expenditure start with the idea of fully exploring the possibilities and reserves which exist in the socialist planned economy for the improvement of division of labor and production cooperation relationships in all branches of the national economy and the territorial exchange of production cooperation services, including the utilization of territorially favorably situated raw material and material resources by the combines and the enterprises. The subordination of these enterprises under various branches of the national economy does not play any role here.

## 2.5. Electric Energy Use

Rational electric energy management plays a significant role in the context of the strategy involved in the management and planning of rational energy use in the GDR. This results not only from the fact that the production and distribution of electric energy are particularly cost-intensive and capital-intensive but also, on the other hand, that the use of electric energy in the national economy represents a productivity element and that, during its use, there are at this time still considerable savings possibilities and rationalization effects deriving from scientific-technical progress. Thus, the measures that have been determined are concentrated in the national economy especially on the lighting and electrical motor sectors for which about 12.5 percent or about 43 percent of the GDR's electric energy consumption are needed at this time, as well as the improvement of the quality values of electrical household appliances for the population. At the same time, these measures are aimed at decisively restricting the use of direct electric heating

in industry and in the social sector, outside the population, that is to say, direct electric heating which is ineffective in terms of the national economy.

In the case of household appliances, the goal is to achieve scientific-technical top-level results and to relieve the electric energy balance sheet in long-range terms through installation of new equipment with electrical consumer goods, considering the degree of saturation achieved in the households. By requiring the use of high-performance electronic equipment in the conversion or replacement of electrical engine systems in large equipment units employed in strip-mining and in pumps and condensers as well as in inductive heating plants, we are specifically aiming at electric energy savings of 10-30 percent in the national economy's user sectors.

Using the example of lighting energy savings--3,200 Gigawatthours are to be saved in 1985, as compared to 1980, corresponding to a 20-percent cut--we want to emphasize that energy saving does not mean reduction at any price.

In connection with the conversion to job-related lighting, the subdivision of circuits into sections, the use of fluorescent lamps instead of all-purpose lamps, the employment of dimmer switches, the development and use of new fluorescent and high-pressure lamps with lower energy use and higher light yield, we achieve rationalization effects while simultaneously creating more favorable working conditions for the workers in industry. The Robotron Combine was able to save 560 Megawatts of electric energy in one year for example by the conversion of 6,000 square meters of production surface from conventional shop lighting to work-station-related lighting with improved light conditions for each individual worker.

### 3. Status and Lessons Learned in Management and Planning of Rational Energy Use in the GDR

Since the resolutions of the Eighth Congress of the Socialist Unity Party of Germany in 1971, in other words, 2 years prior to the start of the capitalist energy crisis, rational and economical energy use, as essential intensification factor in the national economy's reproduction process and maximum utilization of in-house domestic fuel reserves have constituted the characteristics of continuity in energy policy.

Both aspects--rationalization of energy use and production of energy--are cornerstones of a secure energy supply for the population and the economy.

#### 3.1. On the Management of Energy-Industry Tasks in the National Economy

A basic feature of managing energy-industry processes in the GDR consists in the fact that the responsibility of the ministers and general managers as well as other central and local management organs for the implementation of the energy policy determined by the party leadership and government is fully guaranteed and not restricted. In this way, the uniformity of management and planning of all processes and tasks that are important in the energy industry are assured in close cooperation between other responsible government agencies

and the Ministry of Coal and Energy which is responsible for establishing government energy source quotas, the drafting of the GDR energy complex balance sheet, the licensing of energy source utilization for new construction and reconstruction of energy installations, as well as the construction of the material-technical base of the coal and energy industry. That also applies to cooperation with the energy commissions which are responsible for the accomplishment of tasks required for the implementation of rational energy use in the territory of the bezirks and kreises of the GDR; these energy commissions decisively support or, in the territory, organize the process of replacing energy sources, the use of domestic raw brown coal, rationalization of energy-industry processes in locally-managed enterprises and in the sector of the nonproducing sphere, as well as the exchange of experience and energy-industry qualification measures.

The Central Energy Commission, as an agency of the GDR Council of Ministers, under the direction of a deputy chairman of the Council of Ministers, holds a key position for the coordination and accomplishment of decisive national economic tasks connected with the development of the energy base and the implementation of rational energy use. The complex composition in combination with the analysis of investigation results presented by groups of experts specially called in for specific tasks facilitates expert counselling and decision-making. Government tasks in the field of rational energy use, especially for the drafting of central concepts for the development of rational energy use in the GDR, exerting influence on the main processes of energy employment, the development of legal regulations as well as the effort to influence the planning process--these are being carried out by the Rational Energy Use Working Group attached to the GDR Council of Ministers in very close cooperation with the central agencies, such as the State Planning Commission, the Ministry of Science and Technology, the Ministry of Coal and Energy, the other branch ministries, as well as scientific institutes and installations.

The "Rational Energy Use" seminars--which were organized and carried out by direction of the GDR Council of Ministers--hold an important place in the practical implementation and current execution of central resolutions of the party leadership and the GDR government as well as complex national economic tasks in conjunction with the exchange of experience with responsible government managers as regards the execution of energy policy in the ministries, combines and bezirks. The eighth seminar was held in 1982.

The content of the GDR's energy concept is characterized by most economical energy use in all sectors of the national economy, efforts targeted at the further development of the primary energy structure with emphasis on the more intensive and more comprehensive utilization of the available energy potential, as well as increased use of domestic raw brown coal and the orientation toward using high-grade energy sources for raw-material-industry utilization and further refining as well as for highly productive technological processes in the national economy. The execution of the measures adopted regarding the comprehensive use of raw brown coal in all user sectors so as to release hard coal, coke, and briquets as well as heating oil, that have so far been used for energy purposes, is a main point in central government management and planning.

This specific energy tasking--which must compellingly be achieved through a drastic change in the conditions connected with the import of energy sources--at the same time corresponds to the basic orientation which exists in the CEMA countries and which is aimed at maximum utilization of domestic energy resources in the development of the country's production forces.

### 3.2. The Energy Plan--An Instrument to Guarantee Proportional Development

The annual drafting of the energy balance sheet for the national economy as a whole (complex energy balance sheet) and of energy plans in the enterprises, combines, and ministries is of great importance to government energy policy, especially regarding the preparation of central decisions and for the analysis of energy-industry developments.

Energy planning, as an essential instrument in the execution of socialist energy policy on all economic and management levels, was improved qualitatively during the past several years, while new steps were taken in central, economic and territorial management and supervision. In this way, the combines and ministries, in submitting their energy plan documentation for the national economic plan, in the future will first have to prove what specific measures have been planned for energy-industry rationalization, for the improvement of specific energy consumption coefficients, for the use of secondary energy, and for the reduction of energy consumption, before there is any discussion in the process of plan justification about the level of the specific requirement for energy sources. In this way, the plan for rational energy use gets the necessary government authority in keeping with its central significance on all levels of the reproduction process.

Through the energy plan, the GDR has important instruments for interlocking national economic calculations, for the coordination of the balance sheets and coefficients relating to the individual energy sources in agreement with the utility and primary energy balance sheet preparation effort, for the planning and supervision of the planned reduction of energy intensity and for the planned implementation of the substitution of energy sources, which is necessary for the sake of the national economy, with the goal of making increased use of domestic fuel resources and for the sake of making increased use of secondary energy. In 1980, the GDR government adopted important resolutions on government quotas for energy consumption in the economy which call for the application of government penalties amounting to ten times the price of the quota overruns. After more than 3 years of practical application, we can say that the combines and enterprises were thus forced steadily and increasingly to justify the energy requirement on the basis of progressive standards and coefficients of specific energy consumption; they were also made to exercise the strictest economizing measures in connection with the use of energy sources. The monthly accounting of energy consumption for enterprises and installations, which was introduced since the middle of 1979, is of great significance in checking on and analyzing and in enhancing the responsibility of the general managers of centrally-managed combines in industry as well as the management of enterprises and installations. Government authority over the planning and accounting of energy consumption and the specific target-oriented continuation of energy



policy via the establishment of energy source quotas has thus been strengthened further. This is also helped along by the status achieved in the rationalization of energy-industry work in the national economy which is expressed in the following:

The documentation of energy consumption in the economy on the basis of technically-economically justified standards with a share of, currently, 68 percent;

The use of process analyses through which presently about 75 percent of the energy use in energy conversion plants and 40 percent in utilization plants are covered,

The use of about 250 specific energy consumption coefficients (planning standards) on a central level for energy-intensive products and

The use of, presently, 550 energy consumption standards for the development and production of energy-intensive systems, products, and technologies which are considered to be GDR standards.

The obligatory requirement of carrying out the most important measures in the field of rational energy use through the annual national economic plans in the fields of science and technology, investments and rationalization, as well as planning-methodology regulations for the production and balancing of important equipment for the implementation of rational energy use and government requirements and planning of the utilization of secondary energy are other elements which characterize the improvement of government energy planning in the GDR planning system at the beginning of the 1980's.

### 3.3. Awards, Qualification, and Socialist Competition

The results achieved so far and the greater tasks assigned also in the energy sector would be unthinkable and unrealistic without the comprehensive involvement of the workers of the GDR national economy in the execution of socialist economic policy. This is why it is a main feature of the energy policy pursued by the party leadership and the government on all levels to develop the initiative and cooperation of the workers in all branches of the economy but also among broad population strata, to develop this effort in socialist competition and to mobilize the people for the solution of the as yet unsolved problems.

Rational energy use therefore holds a significant place in the management and production processes of industry, the construction industry, agriculture, and the transportation industry. Starting with the plan discussions in the enterprise and during plan implementation, important criteria of socialist competition and material incentives are aimed at compliance with energy plan targets and evaluation magnitudes.

Suggestions and proposals from citizens among all population strata regarding energy savings, presented in a wide variety, document the aroused interest, the higher awareness level, and a growing sense of social responsibility.

Government awards for combines, enterprises, installations, cooperatives, military units, and territories for "exemplary energy-industry work" given out by the chairman of the Central Energy Commission, by ministers and by chairmen of the bezirk councils, assume a firm place in socialist competition during the execution of energy policy. This award, which so far has been given about 900 times, is tied to the following:

Exemplary results in energy use rationalization,

Achievement and rapid practical implementation of research results with a high degree of energy-industry benefit.

The prerequisites for this are the comprehensive accomplishment of the tasks in the national economic plan and the documentation of an enterprise energy management effort corresponding to the strictest criteria, including the proper and exemplary condition of plant installations.

In years past, energy-management work in the nonproducing sectors of the national economy in the GDR was continually improved.

Decisive steps were initiated in an effort to accomplish higher-level tasks in this sector in the future through the assignment of chief energy experts and energy officers on all echelons, specifically target-oriented exchange of experience, the creation of model solutions for rational energy use, planning, accounting, and analysis of energy consumption, and the establishment of requirements for secondary energy utilization systems.

Planned publicity work on energy questions through the mass media has developed into a steady and effective factor in the GDR since 1980.

Between 1980 and the middle of 1982 alone, far more than 2,000 articles were published in local press organs on critical questions of rational energy use. More than 100 contributions were aired in this connection in two GDR TV program series.

The instruction system for students at colleges and technical schools was improved through the introduction and development of the particular field of studies or lectures and practical exercises concerning rational energy use at important GDR engineering schools.

Comprehensive and regular activities of the GDR Engineer Organization "Chamber of Technology" in the enterprises and territories as well as national specialized conferences are devoted to the problems and tasks of rational energy use and increasingly guarantee the improvement of the skills of engineers and economists.

#### 4. Summary

In the GDR socialist economy, rational energy use is a main way of securing the growth of the national economy in energy terms.

The party's and the government's resolutions are aimed not only at maximum utilization of domestic resources in the expansion of the energy base but also at the most economical and rational use of energy, at the elimination of any energy waste, and at a reduction of losses.

As an agency of the Council of Ministers, under the direction of a deputy chairman of the Council of Ministers, the Central Energy Commission holds a key position in the coordination and accomplishment of decisive national economic tasks connected with the development of the energy base and the implementation of rational energy use.

On all management echelons, the energy plan represents the main instrument for the calculation and implementation of overall-energy proportions. The establishment of requirements and the accounting for energy source quotas, standards of specific energy consumption, and obligatory tasks regarding the use of secondary energy through the combines of industry and the ministries guarantee a high level of authority in energy planning.

Combines, enterprises, and installations as well as cities and communities are given the title "for exemplary work in energy management" in recognition of outstanding energy-industry achievements through the chairman of the Central Energy Commission or through ministers or chairmen of the bezirk councils.

The following energy complexes constitute the essential content of strategic long-time work and analysis and of short-term and medium-term planning in the field of rational energy use: Technological high-temperature processes; space heating and low-temperature drying processes; electric energy use, including lighting, transportation processes; energy conversion, transmission, and distribution.

Rational energy use is the most important element in the planning system and in the implementation of the reproduction process on the basis of legal provisions and methodological regulations as well as on the basis of exactly formulated and accountable criteria.

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GERMAN DEMOCRATIC REPUBLIC

AGRARIAN PRICE REFORM: CONSEQUENCES FOR PRODUCERS, CONSUMERS

Incentives to Increase Production

East Berlin BERLINER ZEITUNG in German 29 Dec 83 p 3

[Article signed by Dr. K.-H. Arnold]

[Text] In January 1984 the agrarian price reform goes into effect in the GDR. This is one of the most pervasive political and economic measures taken throughout our agricultural history. Moreover, it affects the whole national economy. Retail food prices are not affected by it; they remain stable.

The agrarian price reform is meant to do something to increasing farm production and cutting back what it costs. Three major points will summarize it.

--Socialist cooperatives and state-owned farm enterprises get more money for their products in state purchase. Crop and livestock products bring in more than before.

Prices are now geared to economically required outlays, cover the costs on that basis and ensure the normal profits through which the necessary investments can be funded (the machines, for example). Profits go up to the extent that production does and that costs are cut back.

--Cooperatives and farm enterprises now pay for the means of production and other industrial commodities the full industrial prices, as do all other economic sectors. This holds true for the equipment and the fertilizer, the energy sources and energy, and the sacks. Thus far, agricultural purchase prices lay below the industrial prices.

The output and return of industry and agriculture thus are now being rated by uniform criteria, and we find out what farm production really costs.

--Farm product prices are not going up evenly, but unevenly. The highest prices are paid for the economically most significant products. So when they are produced they also make for the highest profits.

Grain, for obvious reasons, is the most profitable. At least 180 commodities of everyday need are made of grain, bread, bakery goods, flour, farinaceous goods and beer, spirits and many other commodities.

## Grain Production Incentives

Circa 70 percent of the grain yield, however, is used for feeding livestock. Most grain we produce ourselves is thus used by agriculture for the production of meat, milk and eggs, and quite a lot of livestock feed still has to be imported.

So it is logical that our own grain production should bring high prices. They are incentives for increasing production, the most economical feed-use made of grain, and the utilization of all acreage for producing different and cheaper fodder.

There is no doubt the GDR has possibilities to increase its high grain yields further, which both in 1982 and 1983 for the first time slightly exceeded 10 million tons. The 1984 plan calls for 10.5 million tons. Incidentally, average annual yields between 1934 and 1938 in our territory came to 20.6 dt/ha, between 1951 and 1955, to 23.4 dt. Through an average 36.2 dt, more than 30 dt were reached for the first time between 1971 and 1975. Between 1977 and 1981 we got 36.5 dt, and in 1982 we reached 39.8 dt/ha.

Other cultures, like potatoes, sugar beets and base feed, if enough is produced, assure normal and good profits. Average prices for free land produce are raised considerably. Milk and beef production is made profitable or, at least, more profitable.

Let us give an example for how any livestock production LPG [agricultural producer cooperative] can increase profits through increased production: To make milk production profitable, as geared to the new price level, 3,265 kg of milk per cow must annually be made available to state purchase. In 1982, the GDR average was 3,626 kg. In 1949, we started with 1,782 kg, came to 2,646 in 1960, and already in 1970, to an average 3,314 kg.

Without feed, no milk; without grain, no livestock production. One can always find the livestock production depending on the field economy. This, together with the need for close collaboration among all involved in the farm production process makes the cooperation councils so important. In them are represented the LPG's and the VEG's [state farms] as they complement each other in division of labor, and on their behalf the cooperation council assumes the functions of management and planning, organization and accounting.

## Performance Differences as a Large Reserve

This means the agrarian price reform has to be seen in its connection with other subsidiary processes, as it were, which all serve one goal: increasing their own production of grain, potatoes, sugar beets and forage crop to take care of the increasing tasks in livestock production through their own livestock feed and thereby save grain imports. It is understood that surmounting unjustifiable disparities among the agricultural enterprises plays a role of the first importance here. The irrigation program is also very important, which agriculture copes with mainly through its own capacities. Irrigated acreages facilitate yields higher by circa one-third.

How then do we cope with disparities in natural conditions, there being good and less good soils which, after all, make for differences in yields? Here the agrarian price reform itself introduces allowances for soil differences in terms of graduated committed yields per hectare. Poor soils also get state subsidies. That balances out the differences in soil conditions. Inequities are avoided by the farm prices as they apply to everyone and proceed from average conditions.

Contractually agreed-upon prices remain in effect for deliveries and services within agriculture (between the LPG's or VEG's). These contractual prices were worked out by the cooperation councils.

Not last: Higher purchasing prices go into effect for all small-scale producers including the private plots of LPG members. They are boosting the production of meat, eggs and other products, quite in line, therefore, with the basic agrarian reform.

That this involves changes of enormous scope and importance altogether became apparent already by a figure in the published 1984 GDR budget: Price supports for commodities of basic needs and tariffs go up to M 33.1 billion. The previous allocations for it (1982 and 1983) came to annually circa M 21.4 billion. The difference of circa M 11.7 billion means that food price supports are now doubled (in 1982, it came to exactly M 11,668 billion) to keep them stable.

As to our agriculture, it can be assumed that the agrarian price reform will encourage the farmers to compute what they do traditionally. Wherever they figure out their advantage and act accordingly, it will also accrue to the economic and overall social benefit.

#### Reform Merely Course Correction

Zuerich NEUE ZUERCHER ZEITUNG in German 31 Dec 83 p 10

[Unsigned article]

[Text] With the start of 1984, a number of new economic measures take effect in the GDR within the scope of the ten point program for the economic strategy for the 1980's which Honecker announced at the 10th SED Congress. Among the most important new regulations are a farm price policy reform and a revision of the wage policy in industry.

In his keynote address before the SED party congress, party chief Erich Honecker set down as the central task and indispensable goal of the developed socialist society in the GDR a stable economic growth and the boosting of labor productivity. The target in the growth rate he announced, of an annual 5.1 percent of the produced national income for the 1981-1985 five-year plan period, was not achieved because of the structural and economic crisis in which the state-managed GDR economy has been stuck for years. In subsequent years the anticipated growth rate quotas had to be revised downward (1981: 4.8 percent; 1982: 2.5 percent; 1983: 4.2 percent). For 1984 an increase of the produced national income of 4.4 percent over the previous year is anticipated.

## New Cures

The boost in labor productivity Honecker asked for, to be accomplished through rationalization in the enterprises and structurally adapting to the new economic givens, has evidently also lagged behind expectations. One of the leading GDR social scientists, Otto Reinhold, recently criticized the unsatisfactory intensification efforts of the economy, which had been marked by contradictions between the "old planning and management forms" and the "new requirements" in terms of the GDR's economic strategy for the 1980's.

Politburo member Mittag, in charge of economic matters, at an economic conference in the fall of 1983 had announced new measures for improving the economic mechanism. As state planning and balancing marked the decisive basis for economic development, new criteria were required for industrial performance rating and perfecting economic cost accounting.

A perceptible improvement of overall social development, however, is what they expect mainly from the 14 April 1983 GDR Council of Ministers decree on the "contribution for public funds" and the agrarian price reform, which go into effect on 1 January 1984.

### Steep Wage Taxation

Starting in 1984, almost all enterprises in the centrally managed industry have to turn over a surtax of 70 percent on industrial wages to the "public funds." The construction industry is exempt from this measure till 1 January 1985. In western parlance this contribution to the public funds amounts to an income tax exorbitant in size.

The main purpose of this measure is to cut back labor in state enterprises while boosting the labor productivity. Honecker himself has said the labor productivity in the GDR lagged by 30 percent behind that in the FRG and that this difference absolutely had to be made up for.

This significant inflation of the production factor of "labor" is supposed to motivate the state industrial enterprises even more toward rationalization and industrial innovation. The facts of development thus far have illuminated that it is tough to introduce new technologies. In spite of some successes, the planning staffs of the GDR economy in the important sector of microelectronics find the tempo of development inadequate by international standards. That the weak initiative for innovations is inherent in the system is something that noted GDR scientists, e.g. the nuclear physicist Manfred von Ardenne, have at least indirectly suggested in their critique of the lack of risk-taking in research and in practice.

Through the enterprise contributions to the "public funds," which GDR propaganda calls a second pay envelope for the workers, the treasury, according to estimates, will take in amounts between M 20 and 30 billion in the years ahead. But they must in no way be passed on by the state, as social benefits, to the workers, particularly since the whole point of the new arrangement is to keep the population from gaining additional purchasing power. This is accomplished by that the workers' income is kept stable while industrial costs in wages are rising exorbitantly.

The new arrangement also grants the state a wider financial leeway for the growing armaments expenditures. The 7.2 percent defense budget increase shown in the 1984 national budget compared with the year before--a total of M 12.2 billion--is not likely to cover all the expenditures announced for the modernization of the GDR armed forces.

#### Course Correction in the Agrarian Sector

The GDR's other problem child is agriculture. Adequately supplying the population with foods is of great political importance for as instable a national entity as the GDR. If in spite of that supply bottlenecks keep occurring, it is attributable, not last, to the industrialization of agriculture carried out in the GDR since 1976 by following the Soviet model. Because the high-grade specialization of farm production in large-dimensional and cooperatively interconnected enterprise units (agro-factories) turned out to be a tremendous mistake, course corrections have been undertaken for a while which, however, do not question the ideologically coined political postulates for the order of the socialist planned economy.

The purpose of the catalogue of organizational and price policy measures is the improvement of the profit structure in agriculture and the production boost in farm goods. To that end, the cooperation councils' own responsibility in the large-scale agricultural enterprises is to be enhanced through granting them greater authorities and their own funds. They are promising themselves an effective improvement of the farm sector mainly by raising agricultural producer prices by 50 percent and partly even more at the start of 1984. The price hike is explained by a need to correct the distorted price relations in the GDR's agrarian sector and to adapt to price developments on the world market and in trading with CEMA countries.

At the same time, the subsidies for operating the highly technified agriculture are cut back, which had risen to over M 6 billion annually through a 50-percent higher energy consumption and a doubling in spare part and repair expenditures between 1970 and 1980. They want to make up largely for the reduction in operations subventions by the expected increase in revenue of circa M 4 billion through the price increases in the agrarian sector. Through increasing the producer prices, the state price supports for foods, now at circa M 11 billion per annum, are likely to rise to circa M 25 billion.

The new arrangements in the industrial and agricultural sectors about to go into effect early in 1984, in the view of western GDR economy experts, reflect the efforts of GDR economic management to improve the economic policy management mechanism through modified skeleton conditions. But since the basic character of a centrally administered economy with its strict commitment to the plan and to plan fulfilment is not to be abandoned, one should have to be dubious about any significant effect of the new arrangements.

#### Higher Prices, Higher Costs

Bonn INFORMATIONEN in German No 23, 16 Dec 83 pp 15-16

[Unsigned article]



[Text] With the start of 1984 an agrarian price reform goes into effect in the GDR. According to Politburo member and SED Central Committee secretary Werner Felde, in charge of agricultural matters, at the seventh SED Central Committee session late in November 1983, the agrarian price reform orients "the economic interests of the cooperative farmers and workers to a fast rising production of theirs" and requires "still more compellingly to push ahead still more rapidly" those agricultural enterprises "that have lagged behind in their level of yields and achievements."

In presenting the 1984 national economic plan to the People's Chamber on 8 December 1983, Willi Stoph, chairman of the GDR Council of Ministers, said the agrarian price reform was among the "most pervasive political and economic measures in the history of our agriculture." Within the framework of this reform, the prices for the means of production are raised considerably, partly by 50 percent and more; but the producer prices are greatly raised as well.

The purpose of the agrarian price reform, among other things, is to give the agricultural enterprises powerful production incentives at prices that cover costs. Agriculture and the foodstuffs industry are then no longer kept in the state budget as subsidy recipients at the previous scale. Subsidies for foodstuff production at retail sales prices for basic foods kept stable thus are likely to appear from the 1984 budget year on merely still under the expenditure column of "consumer price supports."

In line with this agrarian price reform, the agricultural enterprises, starting in 1984, will have to pay for machines and energy sources, fertilizer and other ancillary performances for industry industrial prices at the same clip that applies to the other most important branches of the GDR economy (industry, the construction industry). That means a drastic inflation in the means of production in some sectors because, in spite of the much higher world market prices since the 1970's, especially for energy and raw materials, the GDR party and state leadership has not raised the prices for agricultural means of production since 1973. This manner of artificially holding down the purchase prices for the pre-products and investment commodities agriculture needs (e.g., diesel fuel and tractors) in the end cost the GDR treasury M 7 billion (1982) in budget subsidies.

On 1 January 1984, e.g., diesel fuel goes from 0.55 to 1.40 Mark per liter, nitrogen fertilizer, from 1.20 to 2.20 per kgN. Construction and machine prices rise between 40 and 80 percent. Soviet tractors of the K-700 type (220 Hp) and the MTS-50 (50 Hp) go up from M 100,000 and 25,000 respectively to M 162,000 and 35,000, and the price for the GDR harvester-thresher E-512, with a 5.70-meter cutting width, from M 70,000 to 130,000.

As in 1984 price supports for procuring spare parts and for repair services also fall by the wayside, price hikes between 20 and 40 percent are to be expected.

#### Increasing Producer Prices

Increased costs in GDR agriculture due to the stop of subsidies for livestock and crop production are to be equalized by higher producer prices for agricultural

products. Producer prices for grain, e.g., are to increase by an average M 39 per deciton to M 63, for sugar beet from 9.50 to 15.20, for potatoes from M 27 to M 47. For fruit and vegetables, producer prices rise by 30 and 50 percent. For animal products, price increases between 55 and 70 percent are scheduled, such as from 1.05 to 1.70 Mark for a liter of milk (with a 4 percent fat content) and from M 10 and 6.20 to 16.80 and 9.60 per kilogram for cattle and pigs (carcass weight).

It meets the eye that the prices for typical farm products grown on poorer soil, such as potatoes, will go up more than those for products mostly grown on better soils (grain, sugar beets).

Consumer prices for basic foods are to be kept stable, it is the intention of the GDR leadership. Thus their higher production costs now must be covered through extra state budget subsidies. Most of this extra expenditure, to be sure, is to come from the higher budget revenue, which supposedly will take in more due to the agrarian price reform, by means of the reorganized farm taxation. The point is that together with the agrarian price reform agricultural taxes and dues also were reorganized. A "definite committed amount" was newly introduced, graduated as to the site and type of soil from M 20 (alluvial soils) to M 600 (loess soils) per hectare, making up two-thirds of the GDR's entire agricultural acreage.

The state revenue from this committed amount (M 1.2 billion) is higher than what all GDR agricultural enterprises brought in in 1982 (M 1.1 billion). Subsidies earmarked for enterprises in poorly producing locations do not much cut into the budgetary revenue from the "committed amount."

#### Personal Incentives

By doing away with subsidies for the means of production, an incentive for economizing is to be given (especially for fuel and energy), and one for increasing performance dedication, by setting down cost-covered producer prices. The GDR economic administration promises itself incentives mainly by the following measures:

--"Consumer's taxes" are no longer demanded of the enterprises beginning in 1984, which is to say they are doing away with taxing a working income in excess of M 7,500 per head and year.

--Bonuses set down for savings, exceeding the plan and innovations remain in effect and now get oriented to the new prices, so that they actually will lead to greater income hikes than they used to.

--The higher final producer prices also apply to private farm production. The increase in private producer prices for fruit and vegetables was already announced last summer.

According to Politburo member Werner Felfe, "the majority" of the plans presented on dual price bases for 1984 by the agricultural enterprises had proven "that the cooperative farmers and workers do comprehend the purpose of the agrarian price reform."

## Maximum Output Necessary

East Berlin NEUE DEUTSCHE BAUERNZEITUNG in German Vol 24 No 25, 24 Jun 83 p 9

[Unsigned article]

[Text] Planning time has come again to our cooperatives and state farms. More than in previous years this will be a time for stock taking and computing. New agrarian prices go into effect in January 1984. They will make it much more worthwhile, and more compelling, to increase outputs and save funds.

Every decision of milk extra, e.g. that we can produce and sell improves the output of the enterprise. One LPG which in 1983 had a state planning quota of 3,265 kg of milk per cow has figured out, by taking account of the higher costs for capital assets, that it can get an extra M 175 out of each cow and reduce the costs by double-digits, if it accomplishes 3,400 kg next year.

Just as much profit will come in this branch from quality growth and from the improvement of the reproduction rate between carcass weight and the fodder economy.

Yet the course for more effective output wants to be organized. For that, working with maximum output conceptions is virtually indispensable in livestock production enterprises. Anyone can see that who studies the relevant documents and experiences of the Melaune LPG at the Markkleeberg performance show. That LPG is known to be one of the first cooperatives to have introduced the new method. The stable-performance index card of that Upper Lusatian livestock producer, e.g., includes the allowances for extra compensation. Accordingly, a collective that would settle for a plan of 3,000 kg of milk per cow and year would get only M 5 per dt, whereas one that plans for 3,950 kg can expect M 5.80. Bonuses are given also for the quality of calves and for abiding by costs. Bonuses for managers come for meeting similar projects. And finally, even now bonuses are beckoning in Melaune for those who are thrifty in the handling of material and energy, five pfennig for every liter of diesel fuel saved below the scheduled allowance. On that basis, the Melauners may look forward with confidence to the effects of the new prices.

## Main Indices Defined

East Berlin NEUE DEUTSCHE BAUERNZEITUNG in German Vol 25 No 1, 6 Jan 84 p 3

[Article by Dr. H. Klaus, Institute for Socialist Economics, Boehlitz-Ehrenburg]

[Text] Especially at this time, when the old year gets settled and the goals for the next are staked out, it is important to ask in every act of cooperation: How well did we do? How do we compare to others? What must we do to tap our opportunities still better? Thinking that way becomes imperative with the agrarian price reform which, as one knows, goes into effect on 1 January 1984. It makes, after all, more compelling and worthwhile to increase output.

Objective yardsticks are needed to measure the status and development of output in an enterprise or cooperative. There are four parameters that are the core of an economic analysis and evaluation: one's product, the net product, the costs and the profit. They have already been introduced into the industrial management documents of the cooperatives, the departments and the brigades. They also are the starting point for comparisons in the kreis or bezirk.

#### Now They Are Intelligible and Clear

Those four parameters suffice to get an idea about the level of the reproduction process. If one wants to go further, one must of course resort to additional figures.

The product parameter (GE/ha LN) tells you of the size of the crop or livestock end product achieved by the cooperation partners out of their own capacity. It is related to the unit of acreage and constitutes, as it were, the cooperative's economic supply performance. Out of their own capacity means that purchases of products they could produce themselves, be it suckers, heifers, seeds or fodder, first have to be taken off from the revenue the product brings. This own product is also shown separately for the crop production and livestock production LPG's (in GE/ha LN and in MEF/fgv).

The net product parameter (in TM/ha LN or TM/VBE) defines the new value created in a year. That is computed as the difference between gross production and production consumption. It is an important efficiency criterion. By means of it one can show how much labor productivity has been achieved and how high the contribution has been to the national income. Together with the own product, this parameter encourages every collective fully to exhaust the available funds and labor capacity and to get as much as possible out of every hectare of soil.

Because of the high rank these two parameters enjoy, on their level will in the future depend the size and growth of the bonus and compensation fund in a collective. The higher and the more efficient the output, the larger that will be. To increase the material incentive to meet both parameters still more, it makes sense to tie some of the performance-related remuneration of the managerial cadre to it.

The costs parameter expresses the ratio between prime costs and output in monetary value. If it goes beyond 100, the work is not profitable, expenditures are higher than receipts. The farther it is below 100, the more favorable it is. The costs parameter is especially suitable for reflecting the input/output ratio.

As the fourth parameter finally, the profit (M/ha LN or M/fgv) is adduced for performance evaluation. It constitutes the differences between income and costs. Profit is the source for expanded reproduction. Part of it is used to improve the members' working and living conditions and give incentives, through bonuses, for high achievements in the competition. It also provides funds for forming financial reserves. From the profit also comes what the LPG turns over in taxes to the state budget.

These major parameters are closely interconnected, a high own product being of benefit to all the other criteria. When costs are high and profits low, it usually means low output or expenses too high. Then the net product also will be small. If the own product is tops in comparisons but the net product lags behind, it indicates that production consumption is unacceptably high.

#### Cooperation Enhances Effect

While the four major parameters for performance rating always have to be looked at in their connection, I wish to call special attention to the first named, because the own product of cooperation supplies better insights than any other on how successfully the partners in a cooperation work together, how much they make of the self-produced economy-owned fodder products in their own territory, and what contribution in the final analysis the individual makes to the total output of a community.

#### Fodder Utilization Plays a Key Role

So the farmers in LPG A may clearly produce more per hectare than those of LPG B. The ones were probably praised and the others, blamed. Yet in view of the fact that in both cases over 70 percent of the crop production first has to go through animal stomachs before it serves public supplies, the cooperative's own product ultimately decides it all. And what about that? Given the fact that the B cooperative yields more than the A cooperative, the explanation is derived from comparing their own product in livestock production. At B, it is clearly higher by a factor of 2.40 than at A with its 2.15 MEF/fgv. In other words, there are considerable differences in the use made of the fodder provided. And special index figures substantiated that.

A closer examination on the spot revealed that the fodder volume was all right in the A cooperative but there were big quality problems in it, mostly only one type was offered and then not punctually and delivered for several days ahead. That incurs high utilization losses.

As one can see further, such deficiencies also affect the financial outcome. There again the B cooperative is doing much better. Moreover, the profit is in balance among the partners. And the final result is that, in spite of higher acreage yields, the A cooperative ultimately makes less food available to the economy than the B cooperative.

The own product parameter in cooperatives is most suitable for rating the concerted achievement of farmers and cattle breeders and disclosing by comparisons reserves for cooperation.

Table: Comparison between two Cooperatives in Terms of their Own Product

		Cooperative	
		A	B
Own Product in Crop Production	GE/haLN	52.80	48.80
Own Product in Livestock Output	MEF/fgv	2.15	2.40
Own Product of Cooperatives	GE/haLN	44.50	45.12
Supplementary Parameters:			
Fodder Consumption	MEF/fgv	2.65	2.55
Fodder Consumption per MEF Own			
Production	MEF	1.23	1.06
Cooperative Profit	M/ha LN	430	710

HUNGARIAN ECONOMY, ECONOMIC POLICY REVIEWED

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[Article by Andras Inotai, chief of the Department of Economic Integration, Institute for World Economics of the Hungarian Academy of Sciences]

[Text] Development and Prospects

It is no exaggeration to claim that the Hungarian economy in its historical development is in a crucial period in which it has to cope with the challenges of the world economy as well as also the necessary changes in the domestic economy. The beginning of this period is represented by the new economic policy announced in 1979 that set improvement and stabilization of the foreign trade balance as its goals. This setting of foreign trade priorities coincided chronologically with the intensification of the domestic economic reform trends pushed in the background during the first third of the seventies.

I. The New Phase of the Economic Reform<sup>1</sup>

However, ten years after the introduction of the new Hungarian control system it is no longer possible to speak of an almost automatic revival of the former reform ideas: What is also involved now is the new definition and expansion of the former reform goals.

The forces inhibiting reform that developed after 1972 and in part can also be traced back to certain unfavorable developments of the preceding years (above all the increasing gravity of the competition problems of the large enterprises, the beginning trends of an income differentiation, etc) were clearly dominant when the price proportions on the world market were subjected to drastic shifts and the pressure for structural change and adjustment prepared the way for important changes in the individual economies. During this period, the Hungarian economy lost valuable years for gradual adjustment. It is clearly recognizable even now that the interruption of the reform process entailed numerous negative consequences for Hungary's medium-term development.<sup>2</sup>

It is true that the year 1979 restored the political-economic foundations of the reform experiments; however, there have been a series of important changes in the international environment and in the general expectations concerning the reform. While the reform in 1968 was one of several economic policy variants, after 1979 it appears to be practically the only possibility to alleviate the economic problems and to catch up with the world economy.

Another difference consists in the fact that in 1968 principally domestic economic considerations formed the basis for the introduction of the new economic control (speeding up of the rate of growth, better utilization of the generally still adequately available production factors, greater harmony between the real world carrying out a rapid structural modernization and the central planning methods). However, after 1979 the reform measures primarily served the purpose of easing the foreign trade balance that had become critical and to increase the competitiveness of the Hungarian products. Put another way: the reform is expanding and includes foreign trade. It tries to establish a unity of foreign and domestic trade, which is absolutely necessary for one of the most wide-open economies in the world.

A third difference can be deduced from this world economic linkage: in 1968 the long-term stable foreign trade environment was defined as an important prerequisite and (fixed point) for the reform process.<sup>3</sup> After 1979 the reform not only cannot count on this environment, but beyond that it has the task to mobilize the reserves that could provide an appropriate answer to the challenges in case of a deterioration of the international economic situation.

This answer--and that is at the same time the fourth difference--can no longer be restricted to the narrowly defined economic sphere: at the beginning of the eighties it was generally acknowledged and recognized in Hungary that the economic reform process can develop only if appropriate organizational and institutional changes are simultaneously carried out.

## II. Inherent Foreign Trade Necessities

Hungary's foreign trade environment noticeably started to worsen as early as 1973/74. This had to have consequences for Hungary; for approximately 50 percent of the national income is being exported, whereby since the mid-seventies one quarter each flows into the CEMA trade and the extraregional trade. This signifies dependence on each of the two principal markets, which matches the general degree of integration of the West European economies.

The Hungarian economy is deficient in energy and raw materials, so that price increases on both markets necessarily had to have an extraordinarily hard effect on it. The worsening of the terms of trade entailed a loss that between 1973 and 1980 amounted to approximately 80 percent of the growth of the national income. In 1980 the Hungarian economy had to export about 20 percent more to enable it to pay for one unit of its import.

The circumstance that the Hungarian export prices for all important product groups and in relationship to the corresponding import prices increased below average indicates that structure and quality of the export did not adapt or adapted only partially and then slowly to the process of change that took place on the international scale. In spite of that, for a time it was possible to finance the foreign trade and above all the trade deficit by means of credits that were plentifully available and also were in the interest of the Western economies. A considerable part of these credits could even be applied to the development of the unchanged rapidly growing Hungarian economy (primarily to implement priority industrial goals). In 1978 the level of debts and even more

the trade deficit in convertible currency reached, however, such a level that made it necessary--regardless of the progressive worsening of the international economic situation and the tendencies of change in the general political climate that was emerging--to critically examine the economic policy being pursued.

As a result, gradual reduction of the trade deficit (predominantly by increasing the exportability and to a lesser extent by slowing down the growth of imports) was declared as a fundamental goal. A balanced foreign trade balance was planned for the end of the sixth 5-year plan (1981-1985). Obviously this gradual adjustment would have required only relatively modest sacrifices in the growth rate, investment activity, and consumer consumption.

However, a series of international and national developments has led to the necessity of reducing the trade deficit much more radically and much sooner than planned. The deep and lasting recession in the industrial countries, growing protectionism,<sup>4</sup> trade policy discrimination, and the definite concentration of Hungary's West export to Western Europe that has been affected by the crisis above average, have narrowly limited the increase in exports. The sale of the Hungarian export products, primarily those of the machine industry lagged behind the plan. There were in part drastic price slumps on numerous commodity markets important to Hungary. Between 1980 and 1982, the price of aluminium declined by 40 percent, that of semifinished aluminium products by 30 percent, and that of bauxite by 10 percent. In 1981 a ton of grain could be sold at 220 dollars and in 1982 only at 180 dollars. The corresponding prices for corn were 164 and 120 dollars respectively, for slaughter cattle 1,435 and 1,280 dollars, respectively. Overall, the price collapse for petrochemical and steel products caused export yield shortfalls of 110 million dollars, for agricultural products about 150-170 million dollars.<sup>5</sup>

Simultaneously limiting factors also became noticeable in CEMA trade: Even though the prices of raw materials and energy sources (primarily crude oil) imported from CEMA increased only gradually and at a later date, but in final analysis the Hungarian trade balance was also increasingly burdened. In the meantime, the desired quantities of raw materials and basic materials which made possible capacity utilization of the Hungarian industry could be obtained less and less from the CEMA area. It should also be taken into account that the Hungarian price relationships as compared to the developing and OECD countries worsened in the seventies, while this process was reversed after 1979. During 1978 to 1982, there was a terms-of-trade improvement of 1.5 percent in non-ruble trade<sup>6</sup> as compared to a nearly 10-point worsening in the CEMA area. Finally a "hardening" and relative contraction in recent years of the CEMA sales market, formerly regarded as infinitely big, should also be mentioned: the demands have risen but the barter products are not always available, the growth rates have declined in the other CEMA countries, too, with inevitable consequences for the investment and import activity.<sup>7</sup> This situation coincided with the significant upward revaluation of the dollar, a drastic increase in the interest level, and a change of behavior not completely independent of political considerations in the international financial world. In the course of the development, not only the so-called umbrella theory presupposed by the Western banks was deprived of every foundation, a mood spread (and that was



the dangerous part) anticipating the insolvency of one socialist country as the insolvency of all CEMA countries. In this situation Hungary did not receive any credit on the Western markets between May 1981 and August 1982 while simultaneously in the spring of 1982 a significant part of the foreign moneys kept in Hungary was withdrawn.

There is no doubt that absolute priority should be attributed to maintaining Hungary's solvency. But this means that Hungarian trade had to earn a considerable surplus of convertible currency not in 1985 but as early as 1982. Starting in 1983, the trade surpluses exceeding those of 1982 by one half will lead to the absolute reduction of the debt. Expressed in numbers, this means: the approximately 500 million dollar surplus in 1982 is to remain in the coming years constantly in the range of 750-800 million dollars.

Of course it proved to be imperative to define anew certain older ideas on the domestic economy. The actual growth rate figures for the national income necessarily had to lag behind the dynamics indicated in the 1981-1985 plan. This applied even more to the share of the national income usable domestically. Achieving a trade surplus in convertible currency that is unparalleled in the Hungarian economic development required immediate and strong import restrictions and simultaneously a broadly conceived export strategy. As regards the domestic use of the national income, a decision was made in favor of the priority of trouble-free consumer supply, i.e., in favor of the stability of the standard of living. On the other hand, investment activity had to accept great losses.<sup>9</sup> The ratio between consumption and accumulation, that had been around 75 : 25 during the second half of the seventies, shifted to 83 : 17 (1981) and is expected to be 87 : 13 for 1983. Because of the continuing recession of world trade and the continued slow adjustment domestically, the government considered itself forced to modify the twin goal formulated in 1978 (which it was possible to maintain in recent years despite all difficulties), namely the unity of maintaining solvency and of the achieved standard of living, in favor of the first.<sup>10</sup> The 1983 annual plan provides for a decrease of real wages of 1.5 to 2 percent on the average and a reduction of private consumption by 0.5-1.0 percent."

Table 1: The Most Important Indicators of the Hungarian Economy  
(in % of the preceding year)

	1979	1980	1981	1982	1979-82 (1978 = 100)
(1) Nationaleinkommen	101,9	99,2	102,5	102,2	105,9
(2) Inländische Verwendung des Nationaleinkommens	94,5	98,1	100,6	98,6	92,0
(3) — Verbrauch	103,1	101,1	103,0	101,2	108,6
(4) — Verbrauch der Bevölkerung	102,4	100,9	102,8	101,0	107,3
(5) — Akkumulation	75,1	88,7	91,4	86,7	52,8
(6) Industrieproduktion	103,0	97,9	102,8	102,4	106,1
(7) Landwirtschaftliche Produktion	99,0	104,0	101,9	107,6	112,9
(8) Index der Verbraucherpreise Geldeinkommen der	108,9	109,1	104,6	106,9	132,8
(9) Bevölkerung	109,1	109,5	107,4	108,1	138,7
(10) — Löhne und Gehälter <sup>a)</sup>	106,4	102,6	104,4	105,0	119,7
(11) Lebensstandard	100,2	100,4	102,7	101,1	104,5
(12) Ausfuhr	117,2	99,6	106,5	108,4	134,8
(13) Einfuhr	102,6	97,1	104,8	103,4	108,0
(14) Außenhandelsbilanz <sup>b)</sup> (in Mrd. Ft)	- 15,8	- 7,6	- 1,7	+ 12,6	

Key:

- |   |  |
|---|--|
| 1. National income                      | 10. Wages and salaries <sup>a</sup>    |
| 2. Domestic use of national income      | 11. Standard of living                 |
| 3. Consumption                          | 12. Export                             |
| 4. Consumer consumption                 | 13. Import                             |
| 5. Accumulation                         | 14. Foreign trade balance <sup>b</sup> |
| 6. Industrial production                | (in billion forint)                    |
| 7. Agricultural production              | a. Not including agriculture           |
| 8. Consumer price index                 | b. Not including transport cost        |
| 9. Monetary income of the<br>population | balance                                |

Source of table: "Kozponti Statisztikai Hivatal, Statisztikai  
Evkonyv" (Statistical Central Office, Statistical  
Yearbook), various years and author's own  
calculations.

How is the performance of the Hungarian economy to be assessed under these extraordinary circumstances? The data summarized in Table 1 indicate that the Hungarian economy's change of course between 1979 and 1982 did find expression in a slower growth dynamic but without having disturbed the most important factors of equilibrium. After the stagnation in 1979 and 1980, the national income shows a modest stimulation, an achievement not to be underestimated in a raw-material-short economy in the context of a worldwide recession. During the entire period it was possible to keep the domestic use of the national income below the produced national income. Industrial production increased moderately while agriculture achieved a notable production increase. Private consumption rose within the planned limits and the wage development overall corresponded to the ideas of the policy on the living standard. In 1982, the foreign trade balance--not including the transportation cost balance--closed with a remarkable surplus; the reduction of the former deficits can be continuously observed year by year. Furthermore it is surprising that despite increasingly difficult conditions, exports could be increased by 35 percent over four years while imports--at current prices--grew only by 8 percent.

In 1983 the national income is supposed to grow 0.5-1 percent, industrial production between 1 and 2 percent and agriculture in approximately the same magnitude. Investments lag about 6 percent behind those for 1982 and the domestic use is also reduced by 3-4 percent.<sup>12</sup> Within this framework there is the hope that foreign trade equilibrium can be achieved and solvency maintained. The partial data already available (for the first seven months of the year) confirm a remarkable improvement of the foreign trade balance: Exports in convertible currency exceed imports by 22.5 percent but the preceding year's data by only 11.5 percent. The surplus amounts to 11.2 billion forint (first seven months of 1982: 1.6 billion forint). Nevertheless it must be emphasized that the absence of the revival in Western Europe, the unfavorable development on the most important product markets as well as the upward revaluation of the dollar and the price collapse may lead to an export shortfall of about 200-300 million dollars. To this must be added additional possible export reductions caused by the agricultural production stagnating on account of the weather problems.<sup>13</sup> Nevertheless the hope appears to be justified that solvency will be maintained in 1983.

The present satisfactory global development must not blind us to the fact that Hungary's financial situation continues to be not stable enough and that industry is barely able to compensate for the loss of agricultural exports (as agriculture had been able to do for industry for years). The constantly contracting area within which domestic use of the national income can be further curbed--as regards investments as well as also consumption--as well as the time barriers of stress on economy and society require development and implementation of a longer-term economic strategy. In part it can make use of the reform measures that the Hungarian economy has increasingly developed during the past few years.

### III. Important Reform Measures

Reform ideas have already become evident in the 1981-1985 5-year plan. The plan underscores the "openness" of the planning, by specifying only key data (national income, rates of growth for agriculture and industry, investments,

consumer prices, wage development, foreign trade balance) and moreover clearly revolves around the idea of "less but better." Starting from the idea that it was impossible to predict international economic trends for 5 years, the plan contains specific tasks for the first two plan years only and makes the further course dependent upon the start (or the failure to start) of the world economic stimulus to economic activity (about 50 billion forint have been reserved as additional investments for a possible stimulation).

In 1980 an important and since then much discussed change in the principle of price formation took place. Part of the Hungarian economy (about 60 percent of industrial production and 35 percent of material production) changed over to the competitive price system. This system values natural resources (raw materials, energy, etc) according to world market prices, regardless of whether the goods were obtained from CEMA or from the world market.<sup>14</sup> The export prices in convertible trade are based on the domestic prices for the industrial goods. The first measure forces us to be more thrifty, the second contributes to measuring the international competitiveness of the Hungarian industry.<sup>15</sup>

Of the changes made in the financial sphere, the introduction of the uniform rate of exchange of the Hungarian forint in October 1981 is to be stressed as well as the interruption of the revaluation policy practiced for many years.<sup>16</sup> The weekly adjustment of the rates of exchange of the convertible currencies against one another and the more frequent modifications of the forint rate of exchange in relation to the U.S. dollar are supposed to promote elastic and cost-conscious entrepreneur mentality. The first issue of a loan that enables enterprises and authorities to cofinance infrastructure projects is to be interpreted as a first step toward "monetarization" of the Hungarian economy.<sup>17</sup>

Hungary's accession to the International Monetary Fund (IMF) and the World Bank suggests a revival of the foreign trade diplomacy. The growing integration of the Hungarian economy with the world economic division of labor, the possibility to obtain IMF credits, and not least the participation in projects cofinanced by the World Bank in the developing countries are points in favor of Hungary's accession.<sup>18</sup> Of lesser scope but not to be neglected are the trade agreements concluded in 1982 (nondiscriminatory treatment of Hungarian goods in Sweden, early reduction of tariffs in Austro-Hungarian trade) as well as renewal of the agreements with the EC on the access of Hungarian products to the EC steel and clothing markets.

Organizational changes have been made in several fields: the three former industrial ministries have been combined into a ministry of industry. Several industrial combines were dissolved or broken down into smaller units (food-stuffs industry, wholesale trade, construction industry, and the Csepel Works). Regional liaison and sales representative offices subordinated to the ministry of foreign trade are to make an effective contribution to export activity of the small and medium-sized enterprises and of the cooperatives.

Development of new enterprise and plant forms perhaps constitutes the most spectacular (but according to their importance not the most significant) domestic economic change. The small enterprises and cooperatives operate on the basis

of the socialist property; but they, themselves, can determine their production structure. They cannot resort to state support (as some large enterprises can); but they are not forced to form various funds (technical, cultural, reserve funds) and strictly to follow the generally stringent wage regulations. Private enterprises can operate in several forms. In small-scale business, those who can prove appropriate technical training receive their license automatically. Lately they have also been permitted to work for state enterprises. Formerly uneconomical inns, restaurants and groceries can be rented for a sum fixed in advance. Economic joint venture groups are permitted to employ 2-30 people full time. But they can also develop within industrial enterprises to achieve specific production goals. Private companies are permitted to employ a maximum of five persons, all of them full time only. A statistical census concerning the first year after introduction of these new forms of activity found that by the end of 1982 there were a total of 2775 joint-venture groups in state enterprises, 2688 special agricultural groups, 2341 joint venture groups formed by private persons, 145 small cooperatives, and 23 small enterprises. Their income amounted to 4.3 billion forint, which corresponds to 0.2 percent of the national product. They employed about 0.4 percent of the active population, whereby the average wages slightly exceeded the industrial average.<sup>19</sup>

Table 2: Employment Structure of the Hungarian Population

	in 1 000			in %		
	1978	1980	1982	1978	1980	1982
(1) aktive Bevölkerung	5 068,8	5 073,6	5 001,9	100	100	100
(2) — Industrie <sup>a)</sup>	1 752,2	1 697,3	1 620,4	34,6	33,5	32,4
(3) — Bauindustrie	414,2	403,6	382,5	8,2	8,0	7,6
(4) — Landwirtschaft <sup>b)</sup>	1 027,5	1 038,9	1 052,8	20,3	20,5	21,0
(5) — Dienstleistungen	1 874,9	1 933,8	1 946,2	37,0	38,1	38,9

Key:

- |                              |  |
|------------------------------|--|
| 1. Active population         | a. No. of employees declining since 1974 |
| 2. Industry <sup>a)</sup>    | (1974: 1,816,100)                        |
| 3. Construction industry     | b. No of employees growing since 1978    |
| 4. Agriculture <sup>b)</sup> |  |
| 5. Services                  | Note: Differences caused by rounding.    |

Source: "Kozponti Statisztikai Hivatal, Statisztikai Evkonyv 1982"  
(Central Statistical Office, 1982 Statistical Yearbook),  
Budapest 1983

Despite diverse reform measures and the more dynamic development of this entrepreneur activity, it can, however, not be expected that the problems of the Hungarian economy can be solved simply on this basis. The reforms rectify shortcomings, mobilize part of the labor market, guarantee additional sources of income for a part of the population with otherwise stagnating real wages. But the fundamental change can occur only if there will be significant further developments in the key sectors of the economy.

#### IV. Factors of the Change

Relatively little can be expected from agriculture for the further development of the Hungarian economy. On the one hand, it has made significant contributions to exportability in recent years. On the other hand, it has guaranteed for a long time the uninterrupted and balanced foodstuffs supply. It has had a remarkable performance even in the climatically especially poor year of 1983.

The enterprise structure, the skilled worker force, the experiences and mutual complementing of large and small enterprises in agriculture have made it possible to make it into the experimental field in the seventies for forms and methods of enterprises to be introduced in the entire economy. The conditions of the higher individual interest, of democratic enterprise leadership, of small-enterprise production, etc were applied here for the first time. Agriculture also plays a significant role in industry and the service sector: in the early eighties almost all state farms and about 85 percent of the cooperatives carried on some industrial activity. This explains in part why in recent years the decrease in the number of those employed in industry is accompanied by the growing employment figures in agriculture (Table 2). The attractiveness of the secondary activities of persons employed in agriculture can be expected to continue in the future, too. Under present conditions, the main task of agriculture consists in reducing the input costs of the produced goods since the earnings in particular sectors are already above the West European average.<sup>20</sup>

Table 3: Hungary's Energy Balance

	1979	1980	1981	1982
<i>Kohle</i> (1)				
(2)Produktion (1 000 t)	25 659	25 701	25 942	26 079
(3)Einfuhr (1 000 t)	1 515	1 623	1 678	1 997
(4)Einfuhr im Verbrauch <sup>a</sup> (%)	5,6	5,9	6,1	7,1
<i>Erdgas</i> (5)				
(2)Produktion (1 000 m <sup>3</sup> )	6 521	6 142	6 011	6 627
(3)Einfuhr (1 000 m <sup>3</sup> )	2 723	4 045	4 002	3 934
(4)Einfuhr im Verbrauch <sup>a</sup> (%)	29,5	39,7	40,0	37,3
<i>Rohöl</i> (6)				
(2)Produktion (1 000 t)	2 027	2 031	2 024	2 027
(3)Einfuhr (1 000 t)	9 638	8 336	7 754	8 776
(4)Einfuhr im Verbrauch <sup>a</sup> (%)	82,6	80,4	79,3	81,2
<i>Strom</i> (7)				
(2)Produktion (Mill. kwh)	24 514	23 874	24 288	24 523

Key:

- |  |                   |
|--|-------------------|
| 1. Coal                                    | 5. Natural gas    |
| 2. Production                              | 6. Crude oil      |
| 3. Imports                                 | 7. Electric power |
| 4. Imports in consumption <sup>a</sup> (%) |                   |

- a. Domestic consumption equals the sum of production and imports.  
The export figures for natural gas and lignite are statistically not relevant and therefore need not be taken into account.

Source: see Table 2.

Critical areas for the further development of the economy are: the energy industry concentrated on savings, industry burdened by structural problems, and foreign trade efficiency that cannot be looked at separately from industrial production. The fate of economic reform is being decided in these areas.

The Hungarian energy industry reacted to the first oil price shock with additional investments in coal mining. But the extremely high investments were hardly in accord with the relatively poor quality of the mined coal. In

the early eighties the main emphasis was shifted in the direction of savings. This development deserves attention in several respects. First of all, Hungarian production in an international comparison proves to be raw-material and energy intensive, which is determined by the character of the technological processes and a heavy industry based on imported raw materials and developed over decades.<sup>21</sup> Secondly, the savings constitute an important element in the intensive economic development. While new mines and the development of new energy sources serve the quantitative satisfaction of the raw material demand and in final analysis promote extensive development, economical energy utilization influences all branches of industry but to a different degree.

The possibilities for savings depend on the production structure but also on the behavior of the enterprises, especially on the capability for innovation. This is the start of a healthy differentiation. Thirdly, the energy savings can make an important contribution to the foreign trade balance, because 80 percent of the crude oil used in Hungary, nearly 40 percent of the natural gas and 7 percent of the coal are imported and the import of electric power is also significant (Table 3).

The energy plans for the period between 1981 and 1985 provide for a saving of about one million tons of crude oil (rationalization, a higher share of natural gas, and nuclear energy). The past development is gratifying: in 1981 and 1982, a modest growth rate of the national income is accompanied by a 4-percent decrease of specific energy consumption and a 2-percent decrease in raw material consumption. In doing so, it was also possible to slow down the crude oil demand according to plan. (Table 4)<sup>22</sup>

Table 4: Hungary's Crude Oil Imports (in Million Tons)

	1973	1976	1979	1980	1981	1982 (%)
insgesamt (1)	6,6	8,8	9,6	8,3	7,8	8,8 (100)
— Sowjetunion (2)	5,8	7,7	8,5	7,5	7,3	7,0 (79,6)
— Iran	—	0,3	0,3	0,4	0,5	1,1 (12,3)
— Irak (3)	0,7	0,8	0,9	0,4	—	—
— Libyen (4)	—	—	—	—	—	0,7 (8,1)

Key:

- |          |          |
|----------|----------|
| 1. Total | 3. Iraq  |
| 2. USSR  | 4. Libya |

Source: "Kozponti Statisztikai Hivatal, Kulkereskedelmi Statisztikai Evkonyv" (Central Statistical Office, Statistical Yearbook for the Foreign Trade), various years.



The government support program for energy saving provides for 30 billion forint, of which about 15 billion can be spent for rationalization measures. Of these 15 billion, the enterprises have already availed themselves of more than 10 billion.<sup>23</sup>

The processing industry is undoubtedly in the center of the present Hungarian economic development. It constitutes 46 percent of the gross production, more than 40 percent of the national income and nearly 75 percent of the export. More than a quarter of the production is sold abroad, including nearly 50 percent of the machine building production. Machine export (in convertible currency) was unable to fulfill the latest plan figures despite a clear percentage increase between 1975 and 1981. At the same time several sectors (steel and iron, light industry, petrochemistry) were hard hit by the Western structural crisis and/or by the growing competition with the developing countries.

The reduced possibilities for imports of raw and basic materials on the one hand and the structurally caused sales reduction on the other hand point out the necessity for fundamental changes.<sup>24</sup> The change in the industrial structure is supposed to replace the industrial strategy directed towards CEMA (which was characterized by concentration on end products, inelastic technological structure and production structure, overcentralized enterprises, lacking level of control and organizational structure, and material and energy waste)<sup>25</sup> by an industrial development adapted to world economic competitiveness and by the contextual conditions belonging to it (appropriate enterprise size, economical use of raw materials, etc).<sup>26</sup>

Such a strategy requires changes in the distribution of the investment funds. One of the first signs of such a development may be that the share of the state investments within the central development programs declined from 40 percent in 1971-1975 and 61 percent in 1976-1980 to 9 percent in the present plan; this underscores the greater role of the enterprise investments. In addition, the present 5-year plan includes only two new central programs (in the past, it used to be five or six). Production of pharmaceuticals and crop protection agents as well as electronics are based on the existing natural circumstances of a small economy that is raw material poor but is relatively rich in human capital.<sup>27</sup>

The problems of industry become evident above all by the fact the MSZMP Central Committee in July 1983 adopted a resolution on the situation and tasks of the Hungarian industry. It notes:

"The Central Committee considers further development of the industrial policy as necessary, thus as a permanent requirement the following should become more conspicuous:

"--rapid increase in labor productivity;

"--reduction of the demand for means, increase in effectiveness;

"--reduction of specific raw material and energy consumption;

"--approaching and in some cases achieving the technological level of the developed industrial countries."

"In view of the existing domestic facts and the world trends, these requirements necessitate the determination of the following main directions of development:

"--economical utilization of natural resources;

"--development of modern, competitive machines, equipment, agrochemical products, packaging materials, biotechnical processes that are connected with agricultural production conditions;

"--development and dissemination of electronics, especially microelectronics;

"--development and wide use of technologies, processes, and installations that are economical in the use of energy and raw materials;

"--taking into consideration the effectiveness, the raising of the degree of processing, expansion of the activities requiring a higher level of mental and physical work."<sup>28</sup>

On the other hand, noncompetitive production should be dropped (lack of knowhow, inadequate economies of scale, noncompetitive wage level, high transport and material cost).

The change in the industrial structure is directly linked with the consolidation of the foreign trade balance. On the one hand, the less raw-material and energy-intensive development may reduce the corresponding imports which in the early eighties (not including agriculture) constituted almost 30 percent of total imports (not including basic materials). On the other hand, it is important to increase the share of processed goods, primarily machine-building products, in total exports. The latter had a share of about 31 percent of total exports in 1981-1982, but only 11-13 percent of the exports to the OECD countries. An improvement in 1982 can be explained above all with export successes in developing countries. (Table 5).

An increased orientation of the Hungarian economy toward the world economy is indicated by the data in Table 6. Even though there has been a somewhat higher share for the socialist trade in recent years, the trends available in ruble and dollar clearing present another picture. The share of 50:50 of recent years for both main commodity flows shifted to 56:44 in favor of dollar clearing in exports. In agricultural exports there was a change from 67:33 (1978) to 73:27 (1982), in machine export from 21:79 to 31:69. The traditional dual export structure (on the one hand, for the CEMA area, on the other hand for the OECD countries) is to be uniformly changed as rapidly as possible. For the structural and international integration of a small economy, this export structure proved to be not very favorable in the past either. In the future it cannot be maintained because of the increased foreign trade pressures and the marked barriers to the stress on the Hungarian economy.<sup>29</sup>

A series of export-promoting measures have been taken in recent years. Emphasis is to be placed here on the export credit system which became fully effective for the first time between 1976 and 1980.<sup>30</sup> In this context, the national bank has provided 54 billion forint (instead of the earlier planned 45 billion) in credits to increase exports in convertible currency. By the end of 1980, two-thirds of the investments had been completed. Sixty percent of the capacities placed in operation made possible an export increase in convertible currency, 10 percent served the purpose of import substitution, and 30 percent was aimed at the domestic and CEMA market. Total additional export proceeds of 1.1 billion dollars and a 100-million dollar import substitution were thus achieved.<sup>31</sup>

Table 5: Commodity Structure of Hungarian Foreign Trade

(According to SITC Groups<sup>a</sup> in %)

		0+1+4	2	3	5	6+8	7
<i>Ausfuhr</i> insgesamt (1)	1975	22,2	3,8	2,0	7,0	28,1	37,0
	1981	24,7	4,2	4,7	10,3	24,1	30,9
	1982	24,0	4,1	6,6	10,2	22,5	31,5
soz. Länder (2)	1975	19,8	2,5	0,7	6,6	26,1	44,2
	1981	26,5	2,5	2,0	9,0	20,1	39,1
	1982	27,0	2,5	1,2	9,5	19,8	39,3
(3) OECD-Länder <sup>b)</sup>	1975	31,9	8,8	6,9	8,0	34,1	10,3
	1981	23,9	8,9	11,3	12,1	28,6	13,1
	1982	22,8	8,6	19,4	11,2	25,3	11,3
Entwicklungs- länder (4)	1975	14,6	0,6	0,0	6,9	30,4	47,5
	1981	17,4	0,8	1,2	11,9	32,2	35,4
	1982	13,4	0,4	0,9	10,9	28,5	44,0
<i>Einfuhr</i> insgesamt (5)	1975	8,4	10,3	13,5	11,6	24,5	31,7
	1981	8,9	8,1	16,6	13,8	24,0	28,1
	1982	6,7	6,9	20,8	13,6	22,2	28,9
soz. Länder (2)	1975	4,9	10,4	17,2	7,2	23,8	36,4
	1981	4,1	8,3	27,5	7,9	19,7	31,7
	1982	2,9	7,5	29,1	8,3	18,2	32,7
(3) OECD-Länder <sup>b)</sup>	1975	9,6	7,2	0,8	24,5	29,4	28,3
	1981	7,1	7,0	2,8	23,6	30,4	29,0
	1982	6,0	5,8	1,1	25,0	30,6	31,3
Entwicklungs- länder (4)	1975	36,9	20,8	28,3	2,1	11,3	0,6
	1981	47,3	12,2	16,7	3,0	19,8	1,0
	1982	29,0	7,9	48,3	1,0	13,4	0,4

Key:

1. Exports, total
  2. Socialist countries
  3. OECD countries
  4. Developing countries
  5. Imports, total
- a. SITC categories: 0+1+4: foodstuffs, beverages and tobacco, vegetable oils and fats; 2. mineral raw materials; 3. energy sources; 5. chemical products; 6+8 industrial finished goods; 7. machines, equipment, means of transportation.
- b. OECD countries + Israel  
Differences from 100 by rounding and not taking SITC group 9 into account.

Source: See Table 4.

Table 6: Geographic Distribution of the Hungarian Foreign Trade and Regional Foreign Trade Balances

		Werte in Mrd. Ft (1)			Anteile in % (2)		
		1980	1981	1982	1980	1981	1982
(3)	<i>Ausfuhr</i> insgesamt	281,0	299,4	324,5	100,0	100,0	100,0
(4)	— soz. Länder	154,9	174,1	185,3	55,1	58,1	57,1
(5)	— RGW-Länder <sup>a)</sup>	141,4	159,4	169,1	50,3	53,2	52,1
(6)	— Sowjetunion	82,3	100,1	108,8	29,3	33,4	33,5
(7)	— nicht-soz. Länder	126,1	125,3	139,2	44,9	41,9	42,9
(8)	— OECD-Länder <sup>b)</sup>	98,6	90,3	97,2	35,1	30,2	30,0
(9)	— EG	55,2	51,5	50,5	19,6	17,2	15,6
(10)	— Entwicklungsländer	27,5	35,0	42,0	9,8	11,7	12,9
(11)	<i>Einfuhr</i> insgesamt	299,9	314,3	324,8	100,0	100,0	100,0
(4)	— soz. Länder	151,8	161,9	173,0	50,6	51,5	53,3
(5)	— RGW-Länder <sup>a)</sup>	140,5	147,5	158,6	46,8	46,9	48,8
(6)	— Sowjetunion	83,0	90,0	95,8	27,7	28,6	29,5
(7)	— nicht-soz. Länder	148,1	152,4	151,8	49,4	48,5	46,7
(8)	— OECD-Länder <sup>b)</sup>	120,6	126,4	118,5	40,2	40,2	36,5
(9)	— EG	66,4	73,6	68,9	22,1	23,4	21,2
(10)	— Entwicklungsländer	27,5	26,0	33,3	9,2	8,3	10,3
(12)	<i>Bilanzen</i> insgesamt	-18,9	-14,9	- 0,3			
(4)	— soz. Länder	+ 3,1	+12,2	+12,2			
(5)	— RGW-Länder <sup>a)</sup>	+ 0,9	+11,9	+10,5			
(6)	— Sowjetunion	- 0,7	+10,1	+13,0			
(7)	— nicht-soz. Länder	-22,0	-27,1	-12,5			
(8)	— OECD-Länder <sup>b)</sup>	-22,0	-36,1	-21,2			
(9)	— EG	-11,2	-22,1	-18,4			
(10)	— Entwicklungsländer	- 0,0	+ 9,0	+ 8,7			

Key:

- |                                 |                                 |
|---------------------------------|---------------------------------|
| 1. Values in billion forint     | 8. OECD countries <sup>b)</sup> |
| 2. Shares in %                  | 9. EC                           |
| 3. Exports, total               | 10. Developing countries        |
| 4. Socialist countries          | 11. Imports, total              |
| 5. CEMA countries <sup>a)</sup> | 12. Balances, total             |
| 6. USSR                         | a. European CEMA countries      |
| 7. Nonsocialist countries       | b. OECD + Israel                |

Note: Possible differences because of rounding.

Source: As in Table 4.

Between 1981 and 1985, a total of 64 billion forint is available for export credits; of that amount 31 billion were approved up to the spring of 1983--with terms having become stricter in the meantime (term and interest). Industry participates in it with 66 percent, the foodstuffs industry with 32 percent. In recent years a shifting of priorities from increase in exports to import replacement could be observed to some extent. In principle, both strategies can contribute to the achievement of a more balanced trade balance; in fact, import substitutions do not provide the desired result, not to speak of the fact that export orientation and import substitution represent two different economic strategies which--at least in the Hungarian economy--sometimes require basically different means.

The choice of a partner has a more and more important role in increasing exports.<sup>32</sup> Hungary's opportunities for exports are limited by the fact that the most important customers are in Western Europe. But at the same time this region constitutes a problem-burdened and increasingly structurally weak world economic unit. Structural difficulties and protectionist measures have noticeably impeded the EC share in Hungary's total exports since 1979; it declined from 18.9 percent (1973) and 22.9 percent (1979) to 15.6 percent (1982). Owing to the export diversifying efforts, the U.S. share increased modestly and that of the individual Near East and North African countries more heavily. (Table 7)

Since the commodity structure of Hungary's exports is quite "sensitive," appropriate trade policy steps are extraordinarily important (agreement with the EC in the steel and textile sectors, nondiscriminatory trade with Austria and some Scandinavian countries, most-favored-nation treatment in the U.S. trade, etc). Opportunities for increasing exports in the form of Hungarian participations in projects in developing countries are also expected from membership in the World Bank. Furthermore it should be briefly pointed out here that Hungary recently has repeatedly modified the treatment of foreign capital and facilitated its conditions for activities. This favorable legal development in the future is to be accompanied by a corresponding development in the general economic context.<sup>33</sup>

Table 7: Hungary's Foreign Trade According to the Most Important Consumer and Supplier Countries

		Werte in Mrd. Ft (1)			Anteile in % (2)		
		1980	1981	1982	1980	1981	1982
(3)	<i>Ausfuhr</i>						
(4)	Sowjetunion	82,3	100,1	108,8	29,3	33,4	33,5
(5)	Bundesrepublik Deutschland <sup>a)</sup>	27,5	26,4	23,6	9,8	8,8	7,3
(6)	DDR	19,1	20,7	19,9	6,8	6,9	6,1
(7)	ČSSR	17,1	18,0	18,0	6,1	6,0	5,5
(8)	Österreich	12,2	13,0	12,3	4,3	4,3	3,8
(9)	Polen	12,0	10,1	12,2	4,3	3,4	3,8
(10)	Italien	12,7	9,8	11,1	4,5	3,3	3,4
(11)	Jugoslawien	8,3	9,9	10,8	3,0	3,3	3,3
(12)	Irak	3,9	7,5	10,0	1,4	2,5	3,1
(13)	Iran	4,4	4,3	8,2	1,6	1,4	2,5
(14)	Bulgarien	4,1	4,5	5,2	1,5	1,5	1,6
(15)	USA	3,6	4,6	5,1	1,3	1,5	1,6
(16)	Rumänien	6,8	6,1	5,1	2,4	2,0	1,6
(17)	<i>Einfuhr</i>						
(18)	Sowjetunion	83,0	90,0	95,8	27,7	28,6	29,5
(19)	Bundesrepublik Deutschland <sup>a)</sup>	35,1	37,4	36,2	11,7	11,9	11,1
(20)	DDR	20,8	21,1	22,2	6,9	6,7	6,8
(21)	ČSSR	15,4	15,4	17,1	5,1	4,9	5,3
(22)	Österreich	16,2	18,3	16,1	5,4	5,8	5,0
(23)	Polen	11,0	10,6	12,6	3,7	3,4	3,9
(24)	Jugoslawien	7,6	9,3	10,0	2,5	3,0	3,1
(25)	Italien	9,3	9,4	8,8	3,1	3,0	2,7
(26)	Iran	3,9	4,3	8,8	1,3	1,4	2,7
(27)	Frankreich	6,6	7,8	7,2	2,2	2,5	2,2
(28)	Libyen	0,0	0,0	7,1	0,0	0,0	2,2
(29)	Schweiz	8,3	7,6	7,1	2,8	2,4	2,2
(30)	USA	8,2	7,9	7,0	2,7	2,5	2,2

Key:

- |                             |                          |
|-----------------------------|--------------------------|
| 1. Values in billion forint | 10. Yugoslavia           |
| 2. Shares in %              | 11. Iraq                 |
| 3. Export                   | 12. Bulgaria             |
| 4. USSR                     | 13. Romania              |
| 5. FRG <sup>a)</sup>        | 14. Imports              |
| 6. GDR                      | 15. France               |
| 7. Austria                  | 16. Libya                |
| 8. Poland                   | 17. Switzerland          |
| 9. Italy                    | a. Including West Berlin |

Source: as in Table 4

## V. Tasks and Dilemmas

In summary, the following tasks can be stressed for the coming years as the most important ones that can be deduced from the described economic situation:

1. Maintaining the solvency and consolidating the foreign trade equilibrium continue to have absolute priority. Since in the coming years Hungary can only count on modest new credits<sup>34</sup>, it is predominantly dependent upon an increase in exports and at most a moderate increase in imports. Among the sources of income, the noncommercial fields (tourism, services etc) will attain greater importance.<sup>35</sup> The structural modernization of exports is to be appropriately supported by the reorganization of the foreign trade institutions. It is easily clear that the export of machines, equipment, spareparts, and components requires continuous technical developments, maintenance and more services.
2. Not only on account of foreign-trade difficulties but also because of pending domestic economic problems, the economic reform in the coming years must be accelerated. Central importance is allotted to the growing "monetization" of the Hungarian economy (expansion of credit activity, separation of issuing-bank and commercial bank functions, creation of a direct flow of capital among the enterprises).<sup>36</sup>
3. In view of the narrow circle of the reserves to be mobilized, more effective application of the available means is mandatory. Redistributions in the production will be necessary, whereby the treatment of high-loss enterprises should be reconsidered and a solution for the planned reduction of uneconomical (primarily industrial) activities should be found. These many-sided tasks will be supported by the reform of the wage and tax system now being prepared. In addition, there are mobilization of the labor market, expansion of the technical training and retraining system and reform of the entire educational system.
4. The Hungarian economic policy was able to provide satisfactory protection to the real value of consumer income under most difficult international conditions. If possible this principal goal continues to be aspired to. With a temporary reduction in real wages and the necessary increasing differentiation, special attention will however be paid to the improvement of the living conditions of the people (the stable and wide-ranging assortment of goods is an organic component of this policy).<sup>37</sup>
5. The stable foundation domestic policy wise, as well as also the absolutely necessary continuation of the reform of domestic and foreign trade speak for incorporating the organizational and institutional system in the reform process. While in 1968, but also even in 1979, the idea prevailed to minimize the political-social risk of the reforms, implementation of the reform in the present difficult world economic situation necessarily requires conscious acceptance of greater dangers.<sup>38</sup>

Despite a clear setting of tasks, there are of course numerous problems whose solution is now hardly clearly recognizable:



--The reform process can develop differently in a slowed-down economy than under more favorable circumstances<sup>39</sup> characterized by dynamic development.

--The reform is to be implemented taking into account many extraneous factors that do not always fit into the original reform concept (e.g., increasing centralism for importing, shifting the timing of earlier planned measures).<sup>40</sup>

--Sooner or later the investment quota must be raised since the new investments constitute an important factor of the future capability to export but which at the same time is being affected by the necessary reduction of imports; for there is a close interaction of exports and imports in the reproduction process of the Hungarian economy.

--The competitive price system cannot develop without real import competition, which, however, cannot be decontrolled under the present financial circumstances.

--A possible alternative could be in the development of the neglected infrastructure geared to below-average import demand. However, on the other hand, it requires capital investments that would be hard to raise in the desired magnitude in an economy that is short of capital and that would take many years to pay off.<sup>41</sup>

--A specific contradiction exists between mining which promises easing of the raw material and energy import dependence and the processing industry which is supposed to ensure the international competitiveness of the Hungarian economy.

--Obviously a greater income and enterprise differentiation is to be expected which can be handled and controlled better in the presence of a constantly growing share of the national income that is distributable than in a stagnating period in which a temporarily smaller volume is to be redistributed or newly divided.

--On the one hand, the wage policy wants to provide more incentive but on the other hand it must keep the outflowing quantity of money under control to prevent undesired inflationary pressure.

--Finally, some reformers stress the complacency and the contradictoriness of the reform process and fear negative effects of the centralization being observed in some areas. Apart from the emergency measures in the present financial situation, it is important to recognize that foreign trade concentration and domestic economy decentralization are not mutually exclusive but are mutually dependent. West European experiences after the oil crisis make it evident that the world-economically small units (enterprises as well as economies) were able to maintain or expand their foreign trade leeway by means of strong central (state) support.

There is no doubt--even though the above-mentioned problems are to be solved by the Hungarian economy--that direction and speed of the reactions and decisions are being significantly influenced by the international environment.

Aside from the political implications whose treatment is outside the topic of this article, the economic contexts are to be briefly shown here:

--In general, the very high integration of the Hungarian economy with the outside world necessarily exercises a strong influence on domestic economic decisions.

--In the international financial world: Easier access to international credits could improve the growth prospects and increase investments and technological imports which are indispensable for increasing exports even in the medium term.

--In international trade: The change of the export structure cannot take place overnight since the increase of the export proceeds constitutes the most important short-term task, better market access conditions (easing of trade policy especially on the part of the EC) could provide breathing time and make gradual adjustment possible.

--In the effect on the Hungarian development: The instituted reform processes are frequently counteracted (necessary import substitution, opposing enterprise interest regarding "rapid" and "far-reaching" reforms, etc) on account of world economic events and influences. These effects may leave behind permanent marks on the Hungarian economic development and thus--directly and indirectly--help detrimentally codetermine framework and prospects of the general East-West and all-European cooperation.

#### FOOTNOTES

1. Some Hungarian authors speak of the third phase of the reform, others of the fourth. To me the concept that stresses the historical continuity of the reform process appears to be more realistic.
2. F. Havasi, "The Hungarian Economy on the New Path of Growth," in KOZGAZDASAGI SZEMLE, 1982, 7-8
3. The competitiveness of Hungarian products improved during this period; the commodity structure of the exports started to be concentrated on processed industrial goods; Western demand was generally lively. There were few protectionist obstacles except for the EC agricultural market order. As a result of these favorable surrounding conditions Hungary in 1972 and 1973 was able to achieve surpluses in its West trade in contrast to the long-term trend.
4. In Hungary's exports in convertible currency, agricultural goods, steel products, textiles, and basic petrochemical materials play an important role. These goods constitute more than 50 percent of the Hungarian exports to the EC, a much higher share than for the other European CEMA countries. For more details see: A. Inotai, "The Foreign Trade Relations of the Hungarian People's Republic Under the Aspect of East-West Cooperation," Stiftung Wissenschaft und Politik, Ebenhausen, 1980.

5. F. Havasi, "The Most Important Features of the 1982 Economic Development and the 1983 Tasks," in TARSADALMI SZEMLE, 1983, 1.
6. Hungarian foreign trade statistics show a twofold distribution of the foreign trade: socialist countries (all CEMA countries, Yugoslavia, PRC, Albania, DPRK) and nonsocialist countries on the one hand and offsets in ruble and hard currencies (so-called nonruble trade) on the other hand.
7. B. Bagota B. Garam, "Mit kell tudni a hatodik ötéves tervről?" (Valuable Information on the Sixth 5-Year Plan), Budapest, 1981.
8. For the history of these months, see J. Fekete, "Problems of International Indebtedness--as Seen From Hungary," in: THE NEW HUNGARIAN QUARTERLY, 1983, 90.
9. The 1982 gross accumulation amounted to two-thirds, the new accumulation to hardly more than half of that of 1978. This reduction made possible in 4 years the increase of private consumption by 7.5 percent, that of real income by nearly 4 percent, and retention of the real wage at the 1980 level. L. Faluvegi, "Developmental Policy Alternatives During 1983-1985," in: KOZGAZDASAGI SZEMLE, 1983, 7-8.
10. "From 1978 to the end of 1982 we were able to attain the essentials of the two economic policy goals. We do not abandon these goals but maintaining solvency has priority in the situation that has developed... in the interest of the continuous solvency the unfavorable effects must also be accepted that are connected with the low rate of accumulation, the measures affecting the standard of living, and the modification of regulations more strictly controlling the economic activity of the enterprises." in: F. Havasi, op. cit. (footnote 5), p 10.
11. B. Bagota B. Garam, "Mit kell tudni az 1983. évi népgazdasági tervről?" (Valuable Information on the 1983 Economic Plan), Budapest, 1983.
12. B. Bagota B. Garam, op. cit. (footnote 11)
13. An IMF credit is available to offset the possible loss in agricultural exports.
14. The difference between domestic (i.e. world market) and CEMA price is taken from the enterprises and forwarded to the state treasury. Enterprises that process raw materials imported from CEMA receive a state subsidy for production modernization.
15. For the time being the Hungarian economy can meet the foreign trade prices only in a so-called simulated competitive price system; for the actual competitive conditions and the indispensable import competition can be introduced only over a prolonged period of time. For details see: B Csikos-Nagy, "Development Problems of the Hungarian Economy," in: THE NEW HUNGARIAN QUARTERLY, 1982, 88.

16. The exchange rate policy support of export promotion and the partial abandonment of the narrowly interpreted domestic price stability suggests a significant change in the economic-policy mentality. In 1982, the forint was devalued by 11 percent against the U.S. dollar and by 7 percent against the average of the most important Western currencies.
17. The National Combine for Oil and Gas and the State Development Bank placed a loan valued at 200 million forint to finance gas mains which the enterprises purchased during the early months of 1983. Repayment takes place after five years in five annual installments.
18. Hungarian enterprises are participating in carrying out some of these projects. Here it is appropriate to note that the IMF membership documents emphasize the special characteristics of the Hungarian policy and economy and do not permit IMF intervention that runs counter to the priorities of this policy and economy. But since it was the Hungarian economic policy that developed a line concerned with foreign trade balance, there has been satisfactory cooperation between the IMF and Hungary during the last two years; see J. Fekete, op. cit. (footnote 8).
19. "Kozponti Statisztikai Hivatal, Ujtipusu gazdasagi szervezetek 1982-ben" (Central Statistical Office, New Type Economic Organizations in 1982), Budapest, 1983. Most of the new enterprise forms are active in socialist property conditions. Production value and influence on the labor market for the time being are lagging behind the expectations of the economic policy.
20. The per-capita export of Hungarian agriculture is second to that of Denmark and occupies second place with the United States in an international comparison.
21. The material share amounts to 67 percent of the industrial and 58 percent of the agricultural production value. Half of the raw and basic materials is imported.
22. This saving cannot be proved in the crude oil imports for 1982 and for the first half of 1983. However, it should be noted that about one million tons each of crude oil was exported, mainly to Western Europe. More precise country data are not available. In this connection, the reduction is to be given great weight since in the seventies one unit of growth of the national income was accompanied by two units of growth of energy imports.
23. The Hungarian National Bank granted 5.7 billion forint for industry and agriculture in two years. Additional credits amounting to 4.4 billion forint were granted for secondary raw material use. Considering the generally reduced investment sum of 175-180 billion forint per year, these sources of financing are not inconsiderable and point out the priority of the task.

24. Some experts are proposing a better (higher) capacity utilization in the structurally weak branches; see above all A. Juhasz "On the Productive Efficiency of the Hungarian Economy," in: TARSADALMI SZEMLE, 1983, 4. It is unlikely that this therapy will be effective; at any rate, it would lead to higher imports without opening up definitely better and more economical sales opportunities in doing so.
25. Gy. Varga, "Long-term Development of the Processing Industry," in: GAZDASAG, 1983, 1.
26. According to a census of the National Committee for Technical Development, about 10-15 percent of the products of Hungarian industry are internationally competitive. Another 60-70 percent can be made competitive following appropriate selection. Five percent are considered as uneconomical but indispensable. Production of the remaining 10-25 percent ought to be stopped immediately.
27. In addition, the programs for the aluminium industry, petrochemistry, and computer technology that were started earlier are being continued. In 1981, the development programs constituted 9 percent of industrial gross production, 16 percent of the ruble export, 13 percent of the dollar export, 21 percent of the technical development means and 6 percent of the industrially employed. I. Kristof, "Assessment of the Central Development Programs," in: FIGYELO, 1983, 5.
28. "Resolution of the 6 July 1983 MSZMP Central Committee on the Situation and Tasks of Industry," in: TARSADALMI SZEMLE, 1983, 8-9, p 10
29. B. Kadar, "Hungary's Foreign Trade Relations and Economic Reform," in: GAZDASAG, 1983, 1.
30. This activity was also carried out earlier in a narrower framework. Between 1968 and 1974, about 200 million dollars worth of additional exports were financed with a credit sum of 10 billion forint.
31. According to information at the end of 1982, the export-promoting credits made possible exports worth 1.3 billion dollars and an import substitution worth 200 million dollars; I. Garamvolgyi, "How Should Export Promotion Be Continued?" in: FIGYELO, 1983, 10.
32. For a detailed analysis of the seventies, see A. Inotai, op. cit. (footnote 4).
33. A. Inotai: "Tactical Element or Organic Component of a New Economic Strategy? Remarks Concerning Direct Capital Import," in KULGAZDASAG, 1982, 11.
34. Although relatively narrow limits have been set to new borrowing, the available amount of credit can significantly influence the economic development in 1984 and 1985; see L. Faluvegi, op. cit. (footnote 9).

35. In contrast to most small West European countries, 90 percent of the Hungarian foreign currency receipts comes from trade.
36. T. Bacsikai/E. Varhegyi, "Monetarization of the Hungarian Economy," in: GAZDASAG, 1983, 2; B. Csikos-Nagy advocates the opinion that the Hungarian economic reform can be better characterized by monetarization than by decentralization; see B. Csikos-Nagy, op. cit. (footnote 15).
37. New sources of income through additional work, broad opportunities for spending the earned money meaningfully, as well as a fruitful dialog carried on for a long time between government and the people in the course of which the causes of the unpleasant measures (price increases) could be presented round out the picture.
38. It is more than probable that abandonment of the reforms because of fear of greater tensions in final analysis would lead to even greater tensions without being able to control the spontaneously developing processes. J. Bogнар, "Twenty-Five Years of Hungary's Economic Development in Light of the World Economic Change of Epochs," in: KOZGAZDASAGI SZEMLE, 7-8.
39. It should be pointed out that quantitatively higher rates of growth per se are not desirable. What is important at what price which products are being produced and whether they are salable on the world market. The present phase of the structural change includes not only new developments but also the reduction of unprofitable capacities. The growth rate then only reflects the difference in these two developments while the efficiency of the economy can clearly be improved. Also the question of the investment quota is to be dealt with. Undoubtedly the present quota is extremely low; however, there is no reason to return to shares of 25-35 percent of the past decades.
40. In this connection, F. Havasi, Central Committee secretary for economic affairs, rightly observes: "Many refer to the assertion that these methods do not fit into our system of economic control.... Without doubting the difficulties, it must be evident that the rapid and unfavorable effects that befall us do not fit into the usual system of the world economy either." F. Havasi, op. cit. (footnote 5), p 9.
41. I. Berend, "Economic Stabilization and Infrastructure," in: FIGYELO, 1983, 13.

12356

CSO: 2300/218

CONFERENCE EXPLORES POTENTIAL OF JOINT VENTURES

Budapest FIGYELO in Hungarian 15 Dec 83 p 6

[Text] Since this March there has been a lot of foreign interest in jointly owned foreign and domestic companies with headquarters in Hungary. Last week, the Austrian-French Scientific Center, established to compare European countries with different economic and social systems, held a conference in Budapest. One Hungarian specialist noted at the meeting that the time elapsed since March is not enough to clarify the motives for this interest. One thing is apparent even today: the strengthened spirit of enterprise has already affected the profit interest of foreign capital investors. This has all been encouraged by the Hungarian government. As the more stringent economic situation is showing its effects on domestic companies, the capital introduced by the foreign partners provides a way around the credit shortage for them. Besides this, foreign respect for the so-called Hungarian "pragmatic" economic policies must not go unmentioned. As a result of all this, those who draft industrial policies reckon with the appearance of joint venture companies using foreign capital in the domestic economy.

If after this someone thinks that only the missing legal regulations stood in the way of this type of capital import, we must remind him of a few regulations which appeared earlier (in 1970 and 1979) and which provided the first such opportunities. The most recent, comprehensive regulation containing many simplifications is already four years old, but at the beginning of the 80's there was no big rush on the part of foreign companies, neither did the domestic ones exert themselves to seek "housemates" with concrete proposals.

All the participants of the aforementioned seminar declared that these "mixed marriages" would provide much closer interdependent relationships than the cooperative agreements with their extensive heritage and the commission work arrangements and compensatory deals. The foreign literature cannot emphasize enough that--when looking at joint ventures either from the point of view of capital flow or from that of technological transfer--this is the most effective form. In contrast to foreign bank credits and the purchase of technology that can be had on the open market, the partners prefer security and guarantees which make the knowledge of direction and management a "product" besides technology, which thus provide a common element of risk.

At the conference with Hungarian, Polish, French and Austrian participants, the specialists of the Socialist countries demonstrated repeatedly how much the legal-managerial framework, which makes the direct investments of capitalist companies possible, has expanded. (However, on the Polish side the lack of convertibility was brought up as having a negative effect on the clarity of economic perspectives.) The Western participants on the other hand inquired mainly about the possibilities of the joint ventures, delivering to the internal [that is the CEMA] markets, besides the importance of capitalist export for the above named countries. In other words: with the loosening of the limits on resources (i.e., the influx of additional capital), what is the probability that these companies can respond to the apparently enormous Eastern European demand. The Hungarian position is that if that quantity of capitalist export which covers the profit that can be later repatriated and the basic materials and semi-finished products built into the products and acquired for convertible currency is realized, then there is no obstacle to deliveries to whatever other markets.

It was another topic, and for the economic specialists it remains to be one, whether these joint venture companies should integrate into the economies of the given countries or whether they should function in a duty-free zone, i.e., in isolation. Formulating the above in more graphic terms, should these companies, for example in Hungary, keep their books in forints or in West German marks, dollars, etc. According to one Austrian participant, until now a certain mixture of these two concepts, each having its separate advantages and drawbacks, has been in effect, and in fact in all of these the disadvantages tended to stand out. According to the author, far-reaching integration can be realized better in cases in which the market forces are allowed to function.

The problems of integration naturally are connected to the domestic economic situation. In Hungary for example, joint venture companies are in a more advantageous situation from the point of view of taxes than those domestic companies which operate exclusively with Hungarian capital. In this case, therefore the principle of "equal treatment" is broken to the detriment of domestic companies. Yes indeed, but domestic regulations must take the tax laws of other countries into account in order to make it possible for a foreign company to choose a Hungarian "mate." Looking at the problem from another perspective, this matter which is far down the list of priorities for the people's economy demonstrates how extensively company income is centralized in our country.

Far down the list of priorities, we wrote. That is so today. What will happen to the cause of joint ventures is hard to judge as of now. What we already know, just to use statistical data to give a sense of the "matter," at the end of the 70's there was an ever-growing tendency: 8 percent of world trade was done by duty free zones in 344 places and 72 countries. Since then, as either 73rd or higher, Hungary has joined this club. We know little at this time about the results, but this symposium may have contributed towards adding substance to the legal framework. At least that could be gleaned from the lectures and the comments of the Hungarian participants.

12489

CSO: 2500/147



ADVISORY GROUP DECRIES PROLIFERATION OF TAX CREDITS FOR FIRMS

Warsaw ZYCIE GOSPODARCZE in Polish No 50, 11 Dec 83 p 5

[Statement of the Council of Ministers Economic Advisory Council Secretariat: "The Tax Credits and Deductions Policy"]

[Text] During 1983 there appeared a tendency to increase the number of tax credits and deductions. However, when there were too many of them, the incentives system clarity is affected and particular credits and deductions may affect enterprises in contradictory ways. Increased credits and deductions also cause the necessity of increasing general tax rates, which is not usually noticed. Considering the above, the Council of Ministers founded a subcommittee that will review the list of tax credits and deductions and determine whether they are effective and awarded according to the economic reform's principles. The following statement was prepared by the Economic Advisory Council's Secretariat to assist the subcommittee. The subsequent introduction, by the minister of finance, of the Council of Ministers' draft resolution concerning tax credits and deductions narrows the statement's significance for now. However, its importance as an attempt at methodical and comprehensive approach to the issue of tax credits and deductions has remained.

Principles of Awarding Tax Credits and Deductions

Tax credits and deductions are special fiscal instruments useful in influencing chosen areas of enterprises' activities. A tax deduction or exemption can have a significant impact on the enterprise when awarded selectively. However, the following conditions have to be satisfied if this instrument is to be used efficiently:

1. There should be an objective rather than subjective title for the deduction or exemption (the fluid border between objective and particular subjective criteria should be taken into consideration, especially in a strongly monopolistic economy);

2. Conditions for granting the title should be strictly defined to prevent bargaining and arbitrary interpretations of regulations that "soften" tax rigors;
3. The title for the tax deduction of exemption should be properly formulated to avoid creating anti-incentive stimuli as side effects;
4. The amount of tax deductions and exemptions should be limited to preserve the incentive system's clarity on one hand and the capacity for guiding the economy on the other;
5. The amount of the tax deduction or exemption has to be meaningful to the enterprise;
6. Deductions should be available from taxes that are financially detrimental to the enterprise.

To ensure that tax instruments are applied efficiently, the following general conditions should be added to the above conditions pertaining to awarding tax deductions and exemptions:

1. Taxes (including deductions) may aid the functioning of such instruments as prices, wage rates, and foreign exchange rates, but cannot be substituted for them;
2. Deductions from badly designed taxes cannot function efficiently;
3. Enterprises should be informed about tax deductions and exemptions and other tax instruments ahead of time. If they are awarded retroactively, their role changes from that of an element of the system of functioning into an instrument of administrative management;
4. The introduction of deductions is usually supported, but there is usually much disapproval voiced when they are withdrawn.

Tax deductions and exemptions like taxes themselves, should be ratified by the Sejm. They should be reflected in the budget law as the estimated sum decreasing the budget income from taxes. Executive bodies define principles for applying deductions, but those deductions cannot exceed the estimated sum earmarked in the budget for this objective. Those criteria should be applied as well to interest on bank credits.

#### The Evaluation of the Current Policy of Tax Credits and Deductions

The results of evaluating the current state of the tax credit, deduction and exemption system have to be negative in view of the above postulates.

In 1983 there appeared a tendency to increase the amount of tax credits and deductions and these instruments were assigned tasks that they are not able to fulfill. When there are many tax credits and deductions, the danger that

they may have a contradictory impact on enterprises is created. The resulting haphazardness weakens incentives motivating enterprises to improve their management effectiveness.

The process of introducing tax credits and deductions is not sufficiently monitored and when new titles to credits and deductions are proposed, their financial impact is not estimated. Sometimes financial credits are used in cases when such instruments as prices, interest rates and foreign exchange rates would be more appropriate.

Criteria for granting credits and deductions are not precise and univocal, which causes many opportunities for bargaining and arbitrary decisions to be created. As a result, the self-financing principle is weakened, and there is a danger that enterprises will play a "let us get more and more credits and deductions" game with taxing bodies. This may include some investment deductions, partial exemptions from depreciation fund payments, deductions concerning savings of raw and other materials and fuel, and most of all, deductions from PFAZ [State Vocational Activization Fund] payments. Some criteria for granting credits and deductions have an anti-effectiveness character. This concerns credits and deductions granted for exceeding plan indicators and other standards set by enterprises themselves. Investment credits do not serve to encourage effective investments and efficient allocation of production factors, as well as accidental and imprecise investment directions.

The large amount of deductions from PFAZ payments is especially controversial. Furthermore, some of those deductions are imprecise, which leaves many opportunities for bargaining and arbitrary decisions. This introduces another problem to the mechanism of this tax, which is already too complicated. Thus, it is very difficult to manage this tax, and incentives attached to it are almost unreadable.

PFAZ payments, originally introduced as a source of assistance to persons who were to lose their jobs, were then to become a pro-effectiveness measure designed to curtail wage increases that were not justified by the enterprise's financial performance. In reality, it became very easy for pressure groups to influence this measure. A preliminary analysis shows that branches and enterprises with higher average wages generally received more favorable corrective coefficients and exemptions. Furthermore, this measure's impact is haphazard, e.g., credits for net production increases were also applied to apparatus industries, where production increases are only to a very small degree dependent on individual labor productivity.

Inspections conducted by the Ministry of Finances and the Planning Commission show that a calculation of procurement prices for the base year is so complicated and burdensome that enterprises make errors unfavorable to them as often as those in their favor. In most cases inspectors simply gave up and did not conduct an in-depth analysis of this matter.

Hidden forms of tax credits and deductions are contained in various financial systems' solutions in many branches.

There are at least a dozen funds, paradevelopmental in character, created from writeoffs added to costs in order to decrease the basis for setting income tax. They include:

- repair funds at the PKP [Polish State Railroad] and sea travel and deep sea fishing enterprises;
- redevelopment funds at mining enterprises;
- book cancellation funds at publishing enterprises;
- production capacity preservation funds at mines belonging to those mining industry enterprises that are subordinate to the PMChIL [Ministry of Chemical and Light Industry];
- repair funds at enterprises that manage state housing resources.

Economic risk funds are another such example. They include transportation risk funds and the PKP, PKS [State Motor Transport], PLL [Polish Airlines] Lot, and, also at the PKS, risk and guaranty funds for enterprises entering into contracts for general machinery and equipment deliveries, as well as trade risk funds at state tourist enterprises. Those funds, calculated into costs and taxes that decrease the basis for setting income taxes, should be examined to determine whether their existence is justified.

Awarding credits and deductions to particular enterprises, as well as discretionary application of other economic instruments, weaken the unity of the economic system's functioning. This concerns such instruments as price leveling calculations, differentiation of principles for dividing depreciation costs between the enterprise and the budget, exclusion of fixed assets that are not in use from depreciation cost calculations, and technological development funds of ministries.

## Conclusions

1. In the long run, differentiation of turnover tax rates should serve to stimulate the desired structure of production and consumption. For the near future it should contribute to fostering the achievement of unit balances. Frequent changes in turnover tax rates weaken proefficiency attitude, and it may be destroyed altogether if objective criteria are replaced with subjective.

2. Income tax deductions should:

- a. promote a prodevelopment attitude in enterprises and, subsequently, strengthen the impact of PFAZ payments. However, those deductions should not depend on particular investment directions. In the present situation this would mean that the central authorities would be involved in many small investments of enterprises, which really is not necessary;

b. reimburse enterprises for constructing social infrastructure, including schools located on plant premises, houses of culture, and sport and tourist facilities open to the public;

c. promote the increase of profitable exports. However, deductions cannot be a substitute for foreign exchange rates or other instruments designed to stimulate profitable exchange with other countries;

d. promote high-quality production, i.e., there should be deductions for products bearing high-quality signs.

3. The Economic Advisory Council made many statements concerning changes in the system of credits and deductions from PFAZ payments. The council's stand can be summed up as follows:

a. When deductions from PFAZ payments are used to increase production, this instrument's basic function, i.e., prevention of unjustified wage increases, is affected;

b. It is advisable to establish a threshold universally free from PFAZ payments. For example, the threshold could be set at one-half of the cost of living indicator increase plus the so-called autonomous wage increase indicator. The threshold should be additionally differentiated when there is a need for correcting drastic wage level disproportions among branches;

c. The use of deductions from PFAZ payments as derivatives of income tax deductions based on exports and high-quality production should be taken under consideration.

If a decision is made to continue current deductions from PFAZ payments, it will be necessary to eliminate, or at least radically limit, other types of deductions and preserve only deductions based on increased net production.

All deductions and priority treatment concerning PFAZ payments should be determined ahead of time by the CPR [Central Annual Plan]. Subjective deductions awarded sometimes at the end of a fiscal year as an expression of approval are unacceptable. The same goes for deductions of specific sums of money awarded to particular enterprises for fulfilling their production plan "ahead of time," even though production plans are not currently ratified by founding organs, as is well known. Such actions resemble methods consisting in limiting the wage fund by a specific amount, which was done during the period of the command-distribution system.

4. Differentiation of the rate according to which depreciation cost is distributed between the enterprise's development fund and the budget, done by the central authorities, does not seem justified. Since there is no convincing model that could be used as a basis for establishing priority treatment, such action would result in much bargaining and discretionary decisions. Operation of branch aggregates can be very confusing in any event. The economic situation of enterprises can be very different within the same branch. Awarding priority treatment to certain branches at the expense of

others creates a threat that structural disproportions in the economy will continue to increase. This is why such instruments as investment credits awarded to particular enterprises on the basis of the evaluation of their credit capacity serve better to encourage changes toward greater efficiency and profitable undertakings.

If the idea of differentiation of the rate according to which depreciation cost is distributed between the budget and enterprises is adopted, a systems-type solution rather than a discretionary one should be adopted. The solution should consist in increasing the enterprise's share in the depreciation fund by a percent that would be compatible with the enterprise's increased share of writeoffs from profits for the development fund in the enterprise's income. This deduction is justified as follows: if the enterprise, which is free to use its profits in any way it wants, prefers to use them for its development at the expense of the work force's consumption, this shows that the enterprise's development needs are urgent and it should be given support in this area.

5. It is imperative that all remaining titles to credits, deductions, and exemptions be given up. For example, it does not seem useful to award credits and deductions for fulfilling government contracts. The guaranty of producer goods procurement, and especially the priority status concerning imported producer goods procurement, should be enough of an incentive for entering into contracts with the government. Furthermore, many other, usually very small, deductions and exemptions should be given up. It is true that they are financially insignificant; however, they complicate the financial system of enterprises too much. Those deductions and exemptions include:

--income tax deductions for savings of raw and other materials, as well as fuel, energy, etc. These deductions cannot replace balanced prices. Special taxes, contingent on the consumption of specific raw and other materials, may be established in addition to the price policy;

--deductions for technological and organizational progress and economic advantages gained as a result should be enough of an incentive;

--income tax deductions based on preferential treatment concerning a particular line of goods or investment directions;

--clearly anti-efficient deductions, such as deductions awarded for fulfilling ahead of time tasks specified in the enterprise's own plan, for savings accomplished by comparing the enterprise's consumption with consumption standards established by that enterprise, and deductions awarded in order to help pay off investment credits.

9959

CSO: 2600/448

SPECIFIED MATERIALS APPLICATIONS BANNED, DEFENSE ORDERS EXEMPTED

Warsaw ZYCIE GOSPODARCZE in Polish No 50, 11 Dec 83 p 8

[Article by A: "The Minister Bans"]

[Text] According to the 22 October 1983 regulation No 21 issued by the minister of materials management, the use of some materials is banned in the production of specific goods. Some materials- and energy-intensive technologies are also banned.

The use of the following materials is banned:

--aluminum for producing protective coating for heating insulation in pipelines. Zinc-coated sheets should be used instead, except when the work is done in a corrosive medium;

--zinc for producing door frames (door lining);

--silver for producing glass and metal haberdashery, except for exports production;

--high wolfram, high-speed SW18 steel (according to PN-77/H-85022) for producing tools;

--asphalt for the production other than road construction and repairs and production of bituminous lacquer, building paper and insulating and anti-corrosive filling, as well as sound insulation and seals;

--imported dyes for producing ceramic tile and ceramic bathroom plumbing (the Glass and Ceramic Institute has mastered the dye technology);

--high-lead reactive frits for decorating ceramic tile;

--gold and platinum for decorating commonly used metal products, crystals and domestic glassware and packaging, except for jewelry;

--zinc-coated sheets for producing metal twist-off type caps for capping glass jars containing mustard, marinades, horseradish and other processed fruits and vegetables that do not need to be pasteurized;

--zinc-coated sheets for producing cans for storing canned headcheese, "kaszanka" sausage, canned pickles (stored in containers with a capacity of 1 liter), beans, spinach, cabbage thickened with brown butter and flour, peas and carrots and other canned vegetables, as well as cheese spreads, canned meat and vegetables and tomato juice. This does not apply to special buyers;

--tinned zinc-coated sheets for producing containers used for storing creams, pastes, tea, natural coffee, coffee grains and ground coffee, as well as Inka-type coffee, cocoa and chocolate drink;

--aluminum foil used for packing desserts and condiments that do not contain fat, candy and soap, except for special ORO soap;

--laminated and varnished chipboards for producing wainscot and bathroom fixtures except for shower curtains and casings for plumbing joints;

--primary polystyrene for producing bottles used to store distilled water and chemical detergents;

--steel sheets used for producing steel heaters that are installed in buildings over 4 stories high or whose cubic capacity equals over 300 cubic meters (this applies to the user as well);

--aluminum for building aluminum pools, except for those used to build ships, hospitals and health care facilities; for building aluminum bridge structures and their parts, street signs, aluminum gates and fence nettings;

--aluminum used in building aluminum manholes and roof hatches, except when used for producing containers and apparatus used in chemical installations and transportation means for chemicals used to produce aluminum finishing elements (railings, plates and balustrades); used in producing elements of building casings (coupling links, shields and crates), cake trays and forms, window shutters (except when used for producing equipment for health care facilities up to 1 January 1985), containers, except those produced in the Spomasz Food Machinery and Equipment Plant in Bialystok;

--zinc-coated sheets for producing nonfood cans (paint, glue and oil), except for small cans used for supplying consumer goods to the marketplace and for producing canisters;

--lead-zinc alloys and zinc for producing tubes;

--borosilicate glass for producing drinking glasses. This should be replaced by soda-lime glass;

--primary raw materials for producing technological finishing fibers.



Technologies covered by the production ban include:

- x --block carriages with a lifting capacity up to 3 tons. They should be replaced with telephers. Not covered by the ban is production of 30 pieces a year for foundry and construction materials industries (effective 1 January 1984);
- the Tarpan 233 farm vehicle should be replaced by a special multipurpose lightweight farm vehicle with the compression-ignition engine (effective 1 January 1987);
- gas-concrete blocks in the mode over 07;
- ferroconcrete prefabricated sanitary cabins;
- multilayer outer wall panels for W70 and WK70 systems in the version not adjusted to PN-82B 02020 requirements (effective 31 December 1985);
- metal garages whose production uses up more than 50 kg/square meter of usable floor (effective 1 January 1984);
- curtain rods whose production consumes over 0.18 kg/running meters of aluminum (effective 1 January 1984) and, effective 1 January 1985, the use of aluminum in production of curtain rods is banned altogether. It will be replaced by plastics (except at plants grouped in the Central Union of Cooperatives of Invalids);
- the technology used in production of large panel elements of the Szczecin system for constructing buildings, including construction of homogeneous walls using ceramzite-concrete (it should be phased out gradually--the full ban is effective 31 December 1985);
- large-panel elements (in their original version) in OWT-67 and WUF-T Systems, and Wroclaw, Rzeszow and Czestochowa large panels. (It should be phased out gradually--the full ban will be in effect 31 December 1985);

The above regulations and measures do not apply to the production of the following goods: goods ordered by the Minister of National Defense and the Ministry of Internal Affairs; materials and products necessary for completion of central and continued investments and goods produced for exports; the production and repairs, as well as reclamation of spare parts and assemblies necessary for continuing the use of goods that are already in use; producing materials and goods using waste raw materials and those not possessing their full value.

9959

CSO: 2600/450

# EFFORTS TO IMPROVE PRODUCT QUALITY

Bucharest REVISTA ECONOMICA in Romanian No 47 25 Nov 83 pp 11-12

[Article by Ioan Roman, Veronel Antonescu: "In the Spirit of the Guidelines Laid Down by the Romanian Communist Party Central Committee Plenum: Elevation of Product Performance and Quality Level"]

[Text] Improvement in the technological, performance, and economic characteristics of products represents an essential requirement for the functioning of a modern economy at high levels of productivity, competitiveness, and efficiency. High quality of design and workmanship throughout the manufacturing process is embodied in high performance products manufactured at low cost, products which are highly esteemed and are in great demand and are eagerly brought by domestic and foreign customers. Stressing the particular importance of this problem, Comrade Nicolae Ceausescu, party secretary general, has pointed out that "under the current international economic circumstances forcing us to cope with difficulties linked to the economic crisis, and in a situation marked by lively competition, we must do everything of which we are capable to make Romanian products competitive and to make them comparable from the viewpoint of performance and quality with any similar products throughout the world."

Now that the Romanian economy is deriving the benefit of a special program for improvement in product performance and quality (the program was discussed and adopted at the recent Plenum of the Romanian Communist Party Central Committee), many actions are now in progress in all enterprises, industrial central offices, economic ministries, scientific research and technological engineering institutes, and educational establishments to raise product quality to and above the level of the best achievements worldwide, while increasing labor productivity and rigorously conserving raw materials and energy at every work place. On the basis of the provisions of the program, particular emphasis is placed on improvement in production structures, renovation and modernization of production, and quality assurance in keeping with production documentation. These measures can lead to substantial increase in the coefficient of raw materials utilization, reduction of material costs, improvement in production efficiency, and increase in the ability of Romanian products to compete on foreign markets. Since the valuable research potential and the extensive technical facilities available to Romanian industry have been taken into account in setting goals, and in the light of recent achievements throughout the world and the trends emerging in

each field, as the program provides, all units are making a concerned effort to raise the quality level for an increasing number of products to the current world level and to exceed this level, so as to ensure constant increase in the ability to compete.

Stressing that implementation of the program will make a decisive contribution to attainment of the goals of the Twelfth Romanian Communist Party Congress of achieving a new quality in all fields, of raising all economic activities to a higher level, the Plenum directed that the most energetic action possible be taken to raise the technological and quality level of production, through application of the last achievements of science and technology capable of assuring high technological effectiveness accompanied by greater efficiency. The measures taken in this direction at enterprises are aimed at quality assurance on the basis of the latest achievements of science, engineering, and technology throughout the world and are designed to ensure improvement both in the performance, structural, and dependability characteristics of products and in their economic characteristics: performance, consumption, costs, coefficient of raw materials utilization, and export efficiency.

Unflagging and highly efficient implementation of the provisions of the program requires that efforts be concentrated on the following points in the numerous actions under consideration in economic units, industrial central and technological research and design institutes:

Detailed specification for each product of the tasks deriving from the program, with all workers involved in the process, regardless of their workplace;

Provision of production documentation and improvement in manufacturing technologies, including quality control technologies, and clearcut establishment of quality requirements for the raw and intermediate materials used;

Provision for the manufacturing process of accurate measuring equipment well suited to the measurement sites and of specific test stands authenticating attainment of the design parameters;

Continuous testing of the capabilities of machinery, equipment, and technologies and compliance with the machinery and equipment maintenance, inspection, and repair programs;

Introduction, extension, and universal application of modern quality testing and control methods, by both economic and technical means, making use for this purpose of quality management, statistical control methods, the comprehensive quality assurance system, the demerit method, spontaneous control and setting standards for such control, etc;

Thorough Substantiation, Rigorous Application of Special Methods for the Individual Product

The actions carried out need to be combined in a concrete, unified concept of the special programs for raising the technical and quality level for individual products and groups of products. In practice, every economic unit must

thoroughly substantiate and rigorously apply special programs for individual products and groups of products, ones incorporating both measures to raise the technical and quality level and measures to ensure manufacture of products at the level planned. Under these programs action to raise the technical and quality level must be taken in the form of:

1. Creation of technical and economic data banks incorporating information from the specialized literature, prospectuses, catalogs, and studies prepared by marketing institutes under the Ministry of Foreign Trade, research done by scientific and economic research institutes, international standards (such as those of the ISO, CEMA, IEC, EEC-UNO, UIC, etc), or foreign norms and standards in international circulation (such as the ASTM, VDE, OPI, DIN, GOST, etc), along with data on the best Romanian products in a given field;
2. Grouping of data in accordance with technical and quality criteria: functional (consumption, performance, accuracy, etc), structural and technological (sizes, overall dimensions, weight, etc), reliability (average period of proper functioning, average repair time, availability, failure rate, performance potential, warranty period, service life, etc), ergonomic criteria, industrial esthetics criteria, etc;
3. Comparison of the data on at least four or five peak products made throughout the world with data on products currently being manufactured and assignment of merits and demerits for each technical and quality characteristic;
4. Critical analysis and establishment of technological design and organizational measures which will lead, in accordance with the program approved by the Party Central Committee Plenum, to raising Romanian products to the peak world level and to surpassing of this level. It is recommended that, to make such analyses, use be made of the composite quality criteria and level check list employed in the machine building industry (Ministry of the Machine Building Industry and Ministry of the Machine Tool, Electrical Engineering and Electronics Industry) in the product approval process. In the light of the program, check lists such as this must be updated at least once a year, on the basis of the data bank, to keep Romanian products at the world level. The actions carried out should be aimed at the following so that products will be manufactured at the planned technological and quality level:

--establishment of modern manufacturing technologies and improvement of existing technologies so as to ensure accuracy and stability of production processes, along with uninterrupted growth of productivity, and so as to permit making of elements, subassemblies, and finished products at the level specified by the production documents;

--supply for manufacturing processes of measuring equipment characterized by measurement and accuracy ranges suited to each measurement site, organization of periodic measurement equipment calibration, the measurement frequency being established separately for each instrument as a function of the importance, the characteristic measured, and the operating frequency, in coordination with repair and maintenance of the measuring equipment;

--universal application of quality management (applied by way of experiment in units of the Ministry of the Machine Building Industry and Ministry of the Machine Tool, Electrical Engineering, and Electronics Industry); this is an economic tool contributing to improvement in product quality. It is important not to forget that this technology comprises two stages, the quality budget and quality management. The quality budget presupposes assignment of quality costs to three separate accounts: a defect prevention account (costs of product testing, project quality verification, preparation of quality control plans, procurement of measuring equipment and test stands, etc), a defect detection account (costs for raw materials acceptance and technical inspection on the production line, and finally for reliability testing, monitoring in-service behavior, periodic inspection of machinery, equipment, and production processes, etc), and a defect account (losses due to rejects, adjustments, resorting, reductions, claim settlement costs, servicing costs, etc).

Quality management represents analysis of the three accounts and establishment of measures ultimately leading to lowering of quality costs, and accordingly to improvement in quality. Experience has shown that a 5 percent increase in the defect prevention account results in a 25 percent reduction in the defect account. Hence quality management is not a cost but a profitable investment. The importance to be attached to the second stage must be emphasized in this context, especially since quality management efforts have thus far been concentrated on the first stage.

#### Improvement in Control Technologies

In the making of products at the planned technological and quality level an important direction of action, as outlined in the provisions of the program, must be represented by improvement in quality control technologies by extending modern quality control methods, particularly those of a preventive nature, and at the same time by involving the production worker in the process of turning out products at the level of the approved documentation. It is a question primarily of extending to the production line statistical control applicable to series production; this is dynamic preventive control stopping the production of rejects. It necessitates periodic sampling (at intervals of 1 or 2 hours) of 2 to 12 parts or elements and their inspection. If these samples fall within the so-called supervision limits (which are somewhat narrower than those which the production documents call for), production is allowed to continue. If the supervision limits are exceeded, the batches already produced do not represent rejects, but the manufacturing process must be interrupted for adjustment of the process or elimination of the factors leading to exceeding of the established limits.

Particular attention must be paid to statistical acceptance control applied to batches of finished products or to batches of elements which are either procured or manufactured in a particular department or shop. Efficient conduct of this control necessitates the taking of a sample whose size depends on the importance of the element or product and simultaneously on the batch size (the sample represents about 10 to 12 percent of small batches and 4 to 6 percent of large ones). Batches of products must be accepted or rejected as a function of the defects found in inspection of the sample taken, on the basis of clearly

established risks both for the supplier and the customer (STAS [State Standard] 3160-72) and of an acceptable quality level (AQL) as stipulated in the product standards or contracts. It must not be forgotten that piece-by-piece (complete) inspection has four major disadvantages in comparison to statistical acceptance control. It is uneconomical (in that it requires a large number of inspectors, together with measuring equipment, test stands, etc); it is not applicable in the case of destructive inspection, is unreliable (the best inspector in piece-by-piece inspection misses about 15 percent of the defective products in a batch inspected because of the monotonous nature of the operation), and sometimes becomes distasteful to the production worker. After all, he knows that there is an inspector behind him examining each product and that in the worst case (when the production worker is aware that such inspection is unreliable) only 85 percent of the defective products will be returned to him. But when the statistical control system is applied the production worker knows that, for example, only 13 pieces of a batch of 100 items will be inspected and that, if the quality requirements have not been met, the entire batch of 100 pieces will be returned to him for resorting, reconditioning, etc, in which case control becomes an active factor in quality assurance.

In this context more energetic action must also be taken for extension and universal application of the demerit method, which is widely used throughout the world. It is a simple and efficient method requiring a minimum of mathematical knowledge, taking up very little time in application and interpretation, and permitting guidance of the quality of workmanship. It yields a composite quality index, the demerit, which includes both the number of defects found in the products inspected and the seriousness of the defects. Along with the fact that it permits comparison of the quality of workmanship over time (day, month, year) or in space (between departments, shops, or shifts), this method can represent a basic element in remuneration according to the quality and quantity of work performed, since the demerit assessed can be linked directly to the flate rate applied. The method is widely used in units of the Ministry of Machine Tools and the Electrical Engineering and Electronics Industry and the Central Union of Artisan Cooperatives, and the quality of workmanship has improved spectacularly in units (such as the Gaiesti Refrigerator Factory) at which the demerit index has been correlated with remuneration.

Application of all the measures indicated in the foregoing presupposes the organization of courses administered to improve the professional knowledge of production workers and quality controllers, both in the workplace and by improving analytical programs at all educational levels, from vocational schools to postgraduate courses. Moreover, in practice all possible effort must be exerted to create broad public opinion among workers in favor of compliance with manufacturing technologies and quality standards to raise product performance to the level of peak achievements, etc, by increasing competence and tightening demands at every workplace.

The quality improvement goals of the program, which mark out ways and means of improving the quality and technological efficiency of Romanian products to the level of the best achievements worldwide, of substantially reducing consumption of raw and intermediate materials, fuels, and energy and increasing the coefficient of their utilization in the country and in exports, and of increasing

the competitive ability of Romanian products on foreign markets, must be the focal point of the efforts of all workers at enterprises, research and development institutes, central agencies, and ministries, which must commit all their resources and their entire capacity for completion of the tasks assigned. Not only must these provisions of the program be carried out in their entirety; they must also be constantly improved so as to reflect even higher results and quality and efficiency levels, ones capable of demonstrating the ability of the Romanian economy to keep pace with the best accomplishments throughout the world and to increase the contribution made by the Romanian economy to the international circulation of commodities.

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CSO: 2700/88

PROBLEMS IN RECRUITING, TRAINING, KEEPING MINING WORKERS

Bucharest MUNCA in Romanian 9 Dec 83 p 6

[Article by Corneliu Piloff: "In the Jiu Valley--Recruiting, Training and Stabilizing the Work Force--Between Need and Reality"]

[Text] In a speech he delivered to the recent RCP Central Committee Plenum, Comrade Nicolae Ceausescu once again stressed the need to act decisively to accomplish the programs of qualifying, professionalizing and retraining all categories of workers and specialists.

In the mining industry--given that we have set for ourselves the task to develop the country's energy base at an accelerated pace--the problem of training the cadre of workers and specialists is all the more critical and it is two-fold in nature: on the one hand it is a matter of recruiting and training a significant number of new miners in specific functions and on the other, of the professionalization of existing miners in line with the technical level we have reached today in equipping the mines.

Since the January 1983 meeting of the party's secretary general with the workers, specialists and managers in the mining and geological industry--where specific tasks in this area were among the results of the meeting--in the Jiu Valley mines a number of positive steps have been taken especially in setting up professionalization courses. Although these began somewhat late, they are being held weekly, based on a carefully analyzed program adapted to the specific situation and requirements of each unit. Benefitting from a corps of lecturers selected from well-trained technician-engineers with a love for this type of work and with definite pedagogical aptitude, these courses have captured the miners' interest. To date about 8,000 people have graduated including 6,663 workers and 666 intermediate level and 508 upper level specialists.

"In our mine," we were told by Ion Stoi, president of the workers' union at the Uricani mining enterprise, "professional training is tied in with the program for developing coal production as well as with the program for modernizing work techniques and technology. With the aid of a commission of engineers and technicians, we drew up an analytical program based on speciality groups and skill levels. Theoretical lessons are accompanied by practical instruction (dismantling and assembling multi-purpose machinery, hydraulic and electrical equipment etc) carried out under the supervision of specialists. All the courses end with



rigid examinations and those who do not pass all parts undergo re-instruction. As our mine has the most modern equipment, we have concentrated our efforts on training workers in new jobs such as hydraulic operator, combine operator, miner-machine operator and so on. The efforts which have been made in professional training are directly observed in the results obtained: 14-16 tons per position and even 20-22 tons per position." "With us," said Aurel Anghelus, president of the Lupeni mining enterprise workers' union, "many miners have taken the professionalization courses, familiarizing themselves with the new equipment introduced into mining. More importantly, they have taken multi-skill courses. Now many of our chaps have the necessary mechanical or electrical understanding to be able to step in quickly to remedy some problem and, consequently, to start up equipment. In this way, work time is used to maximum efficiency. The best proof of this is that we now have a labor productivity of about 10 tons per position which, given our coal strata, we feel is good productivity."

Professionalization courses are also underway at the Petrila, Cimpul Lui Neag and Dilja mining enterprises with noticeable results. However, the union committees, which have a direct responsibility in this area, can be criticized for a somewhat lackadaisical attitude regarding attendance at the classes. The analytical programs are planned with interconnecting themes, with an ascending level of difficulty, from the simple to the complex. Thus, regular attendance is required for instruction in each theme in its turn. Furthermore, as a number of miners have requested, the unions should see to it that the professionalization courses end with exchanges of experience, round tables, symposia and, in general, with activities to popularize advances in techniques or technologies which have appeared at the national or world level.

If in professionalization training the mining units in the Jiu Valley have obtained some noteworthy results, deficiencies remain in the areas of recruiting new cadre and training them in specific jobs as well as in stabilizing the workforce. Thus, for example, the Paroseni mining enterprises, using wide-scale and repeated advertising throughout the county press and by creating proper housing, food and off-hours entertainment facilities, have enlarged the workforce by 200 men whom they are now training carefully in the jobs where they have vacancies. At Petrila, 150 miners have been brought on since the beginning of the year. I could give other examples but, nonetheless, they amount to much too little given the current state of affairs. Since 1 November of this year, 8,354 new workers have been enrolled but in the same period 8,720 left mining. The motives for this appear to be few in number, but of those that do exist, there are some serious ones.

First of all, it is the method, in some places empirical, by which new cadres of workers are recruited. "Recruiters" of enterprises go out through the counties where there is an excess labor force. However, some are not prepared to explain to the young people the realities of mining work, others promise them much more than is possible or customary to give, and still others no longer travel around, instead they have set up their "workplace" at the Petrosani station and just maybe applicants will appear there. Recruited in this way, and then faced with the harsher demands of the mining profession, many of the new recruits leave.

Something else that must be given much greater attention is the matter of more rapidly integrating the new arrivals into the profession. In this area the role of the brigade chiefs and masters is crucial. According the new hires the attention due them, letting them in on the secrets of the profession, following up on how they are doing outside of the mine as well, will convince the young people to have confidence in themselves and will tie them to the enterprise collective. Good results were obtained in this regard by the "newly hired friend" initiative which, unfortunately, the union organizations have neglected lately. Another initiative similarly neglected is the "Brigade of High Work Responsibility" idea of brigade chief Constantin Popa at Lupeni.

The fluctuation in the number of new mine workers in the Jiu Valley also has its explanation in the political-educative work--still deficient in some regards--that is carried out by the union organs and organizations. There are still discipline problems at work, technological carelessness and there are still a large number of unexcused absences, unjustified time-off and unwarranted use of medical leave. Work time is not fully used and the irresponsibility of those tasked with equipment repair and maintenance leads to important production losses.

From the discussions carried on with miners, union activists and the leadership, a number of ways have been found to considerably improve the current situation. Among them are:

--Responsible workers, leading miners and technical-engineer cadre should be employed in recruiting for the workforce. There should be meetings organized in various centers in the country with youth ready to enter the job market. At these meetings, they should be informed--using concrete data, slide presentations and documentary films--about the demands of the mining profession, about the beauty of this profession and about the particular advantages it offers.

--Following Buzau County's example, in each county a study should be made of the possibilities for setting up a mining class in the industrial high schools.

--In the existing mining schools, only those fit for the mining profession should be admitted, and based upon a contract, these individuals should commit themselves from the outset to practice this profession.

--Existing legislation should be strictly observed so that the workers' committees [C.O.M.] of organizations in the other industrial sectors will no longer raid the graduates of mining schools.

--The "Alexandru Sahia" studio should make a number of documentary films to educate people on the working conditions in our country's mines.

--The C.O.M. and union committees should be more persevering in their efforts to create the very best housing, food and off-hours recreation facilities. Furthermore, new hires should be assigned to homogenous work groups with good productivity so that they can be rapidly integrated into the profession.

TECHNICAL ASSISTANCE TO KOSOVO FROM OTHER REPUBLICS

Belgrade BORBA in Serbo-Croatian 13, 14, 16, 17-18 Dec 83

[13 Dec 83 p 5]

[Article by Andrej Dvorsak: "Prejudices Are the Largest Obstacle"]

[Text] Since it was made possible by law to meet 50 percent of obligations for the credit financing of the faster development of the economically underdeveloped republics and SAP [Socialist Autonomous Province] Kosovo by pooling capital on the basis of income sharing and self-management, there has been an essential increase in the number of programs and projects being carried out jointly in SAP Kosovo by Slovenian and Kosovo organizations of associated labor. As a consequence and result of that kind of development, there have also been growing needs and interest in establishing firmer and more direct cooperation between work collectives and especially their specialists, as well as in joint training of workers and specialized teams for management and supervision of the new plants and production processes.

In addition to providing advanced training to workers and specialists from Kosovo OUR's [organization of associated labor] in the Slovenian OUR's which are collaborating with them and with whom they are jointly building new economic projects, in Slovenia they are also emphasizing more and more the direct involvement of Slovenian technicians, engineers and other specialists in Kosovo work organizations. In addition to building a new project with pooled resources, it is becoming increasingly widespread practice to train the workers and specialists and thereby guarantee a successful start and profitable business operation of the new plant. This kind of cooperation also includes technical assistance. For example, "Hidromontaza" of Maribor is offering technical and specialized assistance to the work collective of "Feronikl" in Glogovac. Specialists of "Gorenje" of Titovo Velenje have been providing advanced training to personnel from "Fem" in Djakovica; "Gorenje" has also aided this collective from Djakovica in organizing the initial production process.

Contracts are in force between "Fapol" of Podujevo and "Iplas" and "Kolor" from Slovenia, which will be sending to Podujevo a group of specialists to get a new plant running for the production of reinforced polyesters.

## Suggestions of the Slovenian Specialists

Although the first results of technical and specialized cooperation between the Slovenian and Kosovo economies are encouraging, it is felt in Slovenia that this cooperation must be far more highly developed. That is why the republic economic chamber has initiated a broad campaign to arouse the interest of as many specialists as possible to work for a time in Kosovo organizations which need the specialized assistance and which are willing to accept that kind of aid. For the present, we were told by Franci Korelc, secretary of the Slovenian Economic Chamber, this campaign has not yielded the anticipated results.

Professional managers and specialists from Slovenia hold it against their Kosovo trading partners that they do not abide by agreements, that they do not devote enough attention to the organization of work, and that there are many short circuits in the system of passing on decisions from the higher to the lower levels of decisionmaking. They also complain of the management teams and teams of specialists in certain Kosovo organizations for not showing the necessary desire and interest in constructive cooperation with their Slovenian trading partners and that this is greatly hindering and complicating the joint effort and is turning Slovenian specialists against the idea of actually working in Kosovo organizations.

On the other hand, the initiative to send Slovenian metallurgists--engineers and technicians--to work in the combine "Feronikl" in Glogovac has also failed to have the desired results. Not a single Slovenian metallurgist contacted was willing to leave his present job and move temporarily to work in "Feronikl," although they were offered very favorable conditions in Glogovac (a monthly net personal income up to 50,000 dinars, fine houses with low rent, payment of the traveling expenses of their families to visit them, and so on), while in Slovenia they issued guarantees that upon their return they would get their old job back, they would enjoy priority in the choice of applicants to work abroad, and so on.

Engineer Peter Kunc, vice chairman of the professional management board of Slovenian steel mills, feels that the main cause lies in prejudices toward Kosovo and that television and the press could play an important role in removing them.

### Experience With "Feronikl"

Among the principal reasons why the specialists polled did not want to make a temporary move to work in Kosovo OUR's were social security, that is, they were convinced that in spite of all the promises no one would guarantee them that on their return they actually would get back their old job in Slovenia, and they all held more or less distinguished management positions. They go on to say that in "Feronikl" all the creative management jobs have already been divided up among those who are there and that the only thing left for them is actual supervision of the production process, where the decisions are already prejudged, which is to say that the technology chosen is in advance of the techniques, with which it will be difficult to carry out the tasks

which have been set. This means that those who selected the technology will remain in positions of responsibility, while the responsibility for successful or unsuccessful production will be passed on to them. In the survey several Slovenian specialists said that there were several "specialists" in Kosovo who "know everything" except how to organize successful production and how to pass on all the responsibility for failure to others.

The Slovenian metallurgical specialists surveyed are dubious about the economic expediency of the enormous investments being made in "Feronikl," which they compare to "Jadral" in Obrovac, which is why they do not wish to bear responsibility for someone else's decisions. Another difficulty for them is that they cannot take members of their family with them, and that children already attending school are the biggest problem. They all unanimously declared that they wanted to work only "at home," and in response to the suggestion that "after Kosovo" they are being offered the opportunity to even work abroad, they declared that if that were their goal, they could have achieved it long ago without any great problems, since specialists are in demand everywhere.

In spite of all the difficulties, efforts will be stepped up in Slovenia to offer more effective and better organized technical and specialized assistance to the Kosovo economy, above all in the framework of the programs and projects being built with pooled capital and requiring joint effort and responsibility of the Kosovo and Slovenian economies. They are also counting on greater and more effective aid and cooperation from Kosovo work collectives and the agencies of sociopolitical communities and bodies of sociopolitical organizations.

[14 Dec 83 p 5]

[Box]

[Text] Pooling is the Best Way

In Macedonia the pooling of labor and capital by organizations from that republic and the Province of Kosovo is considered to be one of the ways of helping Kosovo, though it is going slowly. In mid-October Pristina was visited by a delegation from the city of Skopje headed by Djordji Uzunovskiy, chairman of the Skopje City Committee of the LC, and during the talks an initiative was taken for "OHIS" of Skopje to build a detergent plant in Pristina. This project would be built on the basis of lead, zinc and other raw materials which exist in Kosovo. It was also proposed that yet another project in the metal manufacturing and food processing industry be carried out in Pristina through the pooling of labor and capital.

[Article by Sl. P.: "Real Needs--An Unknown"]

In spite of the numerous meetings and talks between delegations of sociopolitical organizations of Kosovo and Macedonia, as well as of Skopje and Pristina and of work organizations from the province and the republic, little is objectively known in Macedonia about Kosovo's real needs for

specialists. According to Olivera Cvetanovska, deputy chairwoman of the Macedonian Republic Committee for Labor, when it comes to providing aid to Kosovo in the form of personnel it is not the mechanism we lack, but rather the initiative.

It is well known that the major work collectives like "Trepca," "Feronikl" and others need a large number of specialists, but there is no precise knowledge of what the living conditions would be in the province. The information about needs are mainly obtained from reports of the assembly of the Yugoslav Self-Managing Community of Interest for Employment Security, which, however, do not contain the principal indicators of the number and background of the specialists, nor about accommodations, that is, housing, education of the children of the workers from other republics, and so on.

According to Cvetanovska, Macedonia is very much interested in filling all job vacancies in any republic or province. That is why any initiative, including the campaign to aid Kosovo with specialists, has been widely accepted and supported.

"To be sure, up to now we have not had any contacts in this area, but I personally feel that such contacts would be of mutual benefit, since it would help us, in view of the large number of unemployed persons both in Macedonia and Kosovo, to have an insight into the true state of affairs and our own capabilities in resolving the problems of unemployment," Cvetanovska said.

At the moment Macedonia has 122,235 unemployed, 3,021 of them with senior postsecondary education, 2,261 with junior postsecondary education, 28,554 with secondary education, and 19,193 skilled and highly skilled workers.

Pero Gulevski, secretary of the republic self-managing community of interest for employment security, said that Macedonia is offering Kosovo physicians, dentists, architects, miners and geologists, electronics experts, mechanical engineers, teachers of the Albanian language and Yugoslav literature, and experts in other fields. In short, the specialists are available, but this does not mean that they all could and would seek employment in Kosovo. Objectively, Kosovo is closest to Skopje, where by and large the unemployed specialists are concentrated, and that could be another reason for their taking employment in work organizations in Kosovo. For several years now some 100 physicians and dentists from Skopje have been working in Urosevac, Kachanik, General Jankovic and certain villages in the south of Kosovo, but their number dropped off considerably after the counterrevolutionary events in Kosovo in 1981.

Even Gulevski feels that employment of specialists depends upon living conditions in the other community--housing, employment for the spouse if the spouse is already working, schooling for the children and, of course, the level of pay.

"Probably the personal income is not decisive when it comes to taking a job, but the other conditions are," Gulevski said. However, we should also bear in mind the limited capabilities of Kosovo, which, according to the most

recent figures, has about 85,000 unemployed people, and more than 70 percent of them are in their best years of life and work, that is, they are under age 30.

[Article by B. G.: "Vojvodina: Cooperation Just Beginning"]

As they establish economic cooperation with various regions the people from Vojvodina are also striving to offer aid in the form of personnel to SAP Kosovo. However, in spite of all the efforts and desires, it is still only symbolic. After all, up to now there has not been any organized thinking about how highly educated and specialized personnel from Vojvodina would be sent for a lengthy period to help the Kosovo economy.

"If some program for construction of a factory such as already exists in Vojvodina is being moved to SAP Kosovo, it immediately becomes necessary to provide aid in the form of personnel," says Jozef Simovic, member of the Presidium of the Economic Chamber of Vojvodina. "However, since performance of programs is going slowly, the personnel are also being sent 'on a local.' But there are also several examples of success. There is the case, for instance, when 'Utva' of Pancevo provided capital and personnel to help Prizren and Pec, and even the Danube--Tisa--Danube Canal is investing capital to build a bread bakery in Urosevac, and a number of personnel who will be supervising that construction will even spend a certain time there."

Among the more recent programs more significant aid in the form of personnel is expected in establishment of cooperation between certain Vojvodina opstinas with Prizren, Orahovac and Dragas.

"This year a delegation from those opstinas in Kosovo visited economic centers in Vojvodina such as Subotica, Kikinda, Zrenjanin and Pancevo. There, in the work organizations, they also talked about specific aid," Simovic added. "During the talks quite a few ideas were presented for aid on both sides, and preparations are now under way to carry them out. Unfortunately, however, since all of this is still going at a snail's pace, we cannot speak concretely about any program that has been carried out successfully."

The opstinas Orahovac and Novi Sad have gone furthest in this cooperation, at least for the present. That is, "Naftagas-HINS" of Novi Sad wants to help to build a plant at the "18 Novembra" enterprise in Orahovac, where its personnel would also spend some time. After all, the Orahovac collective wants to broaden its activity to products in which the Novi Sad work organization already has quite a bit of experience. So that when production starts up in the future plant, according to the agreement now being reached, between 30 and 50 specialists from that Novi Sad collective would go to Orahovac and get production going there.

These are still "pioneering" steps in establishing cooperation. Although the people in Vojvodina are not satisfied, they still say that it is good that cooperation has begun. However, it must also be pointed out that assistance in the form of personnel is stipulated only where there is an idea of joint investment of capital. Also, there has not been any very broad examination

in Vojvodina of the problem of how to help Kosovo in the form of personnel or, say, of sending distinguished specialists who by working for a lengthy period would help in achieving rated output at some production plant. But there also exist good opportunities, especially in development of the agroindustrial complex, in which Vojvodina has gone quite far, while in Kosovo there exists a large untapped potential.

[16 Dec 83 p 5]

[Article: "Croatia: The First Bridges of Cooperation"]

[Excerpt] Work organizations of SR [Socialist Republic] Croatia and SAP Kosovo have so far concluded 14 self-management accords on the pooling of labor and capital. Another four accords will be signed by the end of this year. It is mainly a question of investments in new projects in the agroindustrial, metal manufacturing, construction, textile and rubber industries in Kosovo. Of projects which, along with a firm financial package, must also provide solutions for personnel who will get the new production started, will carry it on, and will improve it.

The estimated cost of the projects contained in just 12 of these agreements exceeds the amount of 7.9 billion dinars, in which the investment of the some 60 work organizations from Croatia exceeds 3.5 billion dinars. Performance of only these projects in Kosovo would create work space to employ another 3,600 workers.

The specialists of six of the largest scientific institutes in Zagreb--"Rudjer Boskovic," the Construction Institute, the "Rade Koncar" Electrical Engineering Institute, the Electric Power Industry Institute, and institutes of the food processing and tobacco industries, have been engaged to do studies to meet the needs of Kosovo. In addition, candidates from Kosovo are being successfully enrolled in postgraduate studies and moreover are involved in scientific research projects at almost all universities in Croatia, and that is the right place for them to master that kind of work.

This was emphasized by those we talked with, Stjepan Vrabec of the Economic Chamber of Croatia, and Antun Petak, deputy chairman of the republic Committee of SR Croatia for Science, Technology and Information, concerning BORBA's topic "How Is Kosovo Being Helped With Specialists?"

The direction of our conversation was clearly defined by the assessment on which those we talked with agreed completely--that everything that has been done so far in involving the economic, scientific and educational institutions of Croatia in stimulating the faster development of SAP Kosovo is not nearly enough. Considerably more can and must be done.



[17-18 Dec 83 p 3]

[Box]

[Text] Seventeen Projects

So far 17 self-management accords have been concluded between work organizations of Kosovo and work organizations of Serbia proper. They envisage construction of the following projects: a pump factory in Decane, a machine parts plant at Lesak, a tool factory in Urosevac, a mining equipment factory in Gnjilane, a fan factory in Lipljan, a factory to make fin-type heat exchangers in Orahovac, a factory to make heavy truck tires in Suva Reka, the production of knives and scissors in Prizren, a sheep-raising farm in Urosevac, a farm to fatten young beef in Istok, tourist complexes in Prizren and Brezovica, and so on. This will involve about 3.76 billion dinars, which represents about 37 percent of total obligations on the basis of pooling over the period up to 1985. More than 4,000 new jobs will be furnished by carrying out these programs.

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- END -